JANUARY 1944 2/6

THE BANKER

VOL. LXIX No. 216

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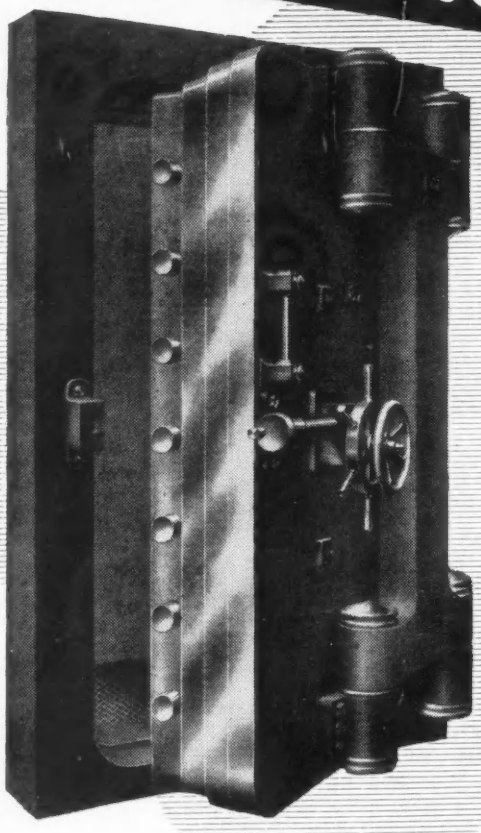

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THE
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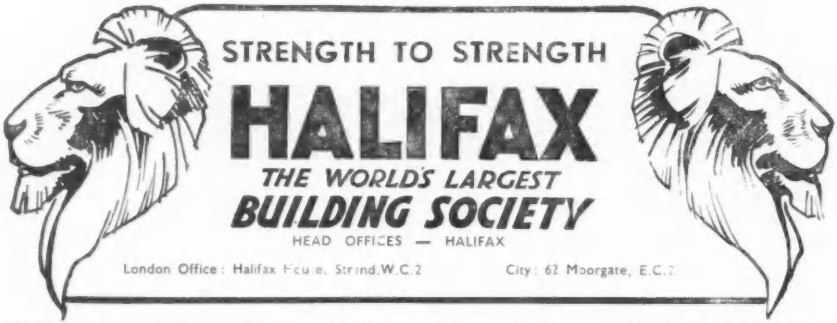
SIR WILLIAM MACNAMARA GOODENOUGH, BT.
[Chairman of Barclays Bank (Dominion, Colonial and Overseas) and Deputy Chairman of Barclays Bank]



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A Banker's Diary

THE liberation from Axis or Vichy control of French territories in Africa and elsewhere has now been followed by an announcement of the treatment to be accorded to residents of those territories under the Trading with the Enemy Act and the Defence (Finance) Regulations. With some minor exceptions, the effect of the recent announcement is to extinguish the restrictions imposed under the Trading with the Enemy Orders and to restore the *status quo ante* as it existed prior to June 1940. This is perhaps a pointer to the way in which claims between residents in the United Kingdom and in countries occupied by the Axis will be treated. It was at one time supposed that a clearing backed by the respective Governments' guarantees might be instituted, modelled on the machinery laid down in the Treaty of Versailles in regard to claims against nationals of the Central Powers.

Still Two French Empires ?

So far as the Defence (Finance) Regulations are concerned, the new announcement reveals a certain number of oddities. First of all, those French territories which have been liberated since December 1941, i.e. since the U.S. entered into the war, have not been incorporated into the sterling area. Gaul, beyond the seas, is thus divided into two parts, one inside the sterling area and one enjoying a vague status of its own. This recalls the anomaly of the two rates of exchange for the French franc, i.e. 176 to the £ in the sterling area territories and 200 to the £ in the others. That differential may or may not be justified by the respective price levels in the different territories ; as it is in fact most unlikely that either rate of exchange represents an exact economic parity, the case for their fusion is a strong one. However that may be, since the writ of the French National Committee presumably runs throughout all liberated French territories, it is surely absurd to maintain a double status for the purposes of the Defence Regulations.

IN the past this country has not often led the way in the compilation of statistics, and it is interesting to note that the United States has only recently carried out an investigation into the ownership of bank deposits similar to that initiated in this country in June 1940, and the results of which were published in the 1943 Budget White Paper. Broadly speaking, the American analysis confirms the conclusions of our own enquiry. Thus, it is estimated that business deposits account for nearly 70 per cent. of all demand deposits, individuals holding about 25 per cent. of the total, and that perhaps three-quarters of the increase in demand deposits since the end of 1941 may have been in business accounts. In this country, it will be recalled, net personal deposits are estimated to have increased from £617 millions to £820 millions between June 1940 and December 1942, whereas other deposits rose from £890 millions to £2,036 millions over the same period. It should be noted that the American figures apparently do not take into account the movement in advances and further relate only to the equivalent of current accounts.

U.S. Census of Bank Deposits

Since it appears that individuals hold the bulk not only of the $19,000 millions of currency now outstanding, but also of the $31,000 millions of time deposits in commercial and savings banks (in addition to $14,300 millions, out of $55,600 millions, of demand deposits), the indications are that individuals own something like half of the total bank credit outstanding in the United States, as compared with only about one-quarter in this country.

Savings Trends

In the fourth year of the war savings campaign, as will be seen from the table below, large and small savings together realized £1,925 millions, an increase of £207 millions on the year. "Small" savings showed an improvement of £113.2 millions, or 18 per cent., despite the further decline of £16.8 millions in subscriptions to Defence Bonds. At £130.5 millions, these compare with a peak of no less than £183.9 millions in the second campaign year. For the full campaign year, subscriptions to the new £1 issue of savings certificates totalled only £27.3 millions; which means sales of no more than £6.9 millions for the five months July to November, compared with £11.9 millions in the April-June quarter and £8.5 millions during the first three months of 1943. It would appear that this issue must now be definitely written off as a failure.

	Third Campaign Year (*a*) Nov. 22, 1941, to Nov. 21, 1942 £	Fourth Campaign Year (*b*) Nov. 22, 1942, to Nov. 21, 1943 £	Total, 4 Years Nov. 22, 1939, to Nov. 21, 1943 £
National Savings Certificates:			
15s. Issue	252,698,984	285,731,984	942,430,953
£1 Issue	—	27,280,432	27,280,432
3 per cent. Defence Bonds ..	147,316,660	130,471,586	641,355,242
Post Office Savings Bank net increase in Balances	179,040,000	229,820,000	667,419,000
Trustee Savings Banks, net increase in Balances	48,899,454	67,765,814	181,135,268
Total "Small Savings" ..	627,955,098	741,069,816	2,459,620,895
Weekly Average ..	12,037,478	14,251,343	11,768,521
3 per cent. War Loan	—	—	302,528,000
2½ per cent. National War Bonds ..	554,416,684	688,762,600	2,302,301,087
3 per cent. Savings Bonds.. ..	524,619,227	486,839,137	1,407,123,678
Loans Free of Interest	10,760,565	8,301,188	60,152,973
Total "Large Savings" ..	1,089,796,476	1,183,902,925	4,072,105,738
Weekly Average ..	20,957,625	22,767,364	19,483,760
GRAND TOTAL	1,717,751,574	1,924,972,741	6,531,726,633

(*a*) Including 18 Weeks of Warships Campaign. (*b*) Including 17 Weeks of Wings for Victory Campaign

On the side of large savings, the decline in subscriptions to Savings Bonds, contrasted with the substantially increased sales of National War Bonds, reflects the increased liquidity preference which has been very noticeable throughout the investment markets as a whole. Last year's interest-free loans of £8.3 millions compare with £18.2 millions in the second campaign year and as much as £22.9 millions in the first twelve months.

IN October, incidentally, the total of Trustee Savings Bank deposits and of Government stocks held for depositors rose for the first time above the £500 million mark. Though some of the banks have been in existence for over a century, it was not until 1919 that their total funds reached £100 millions, and at the outbreak of the present war their resources still fell short of £300 millions. In a letter signalizing the passing of the £500 million mark, Sir John Anderson wishes the banks continuing success, and says: "This is a record to be proud of and I should like to send my heartiest congratulations to the Trustees and Managers all over the country and to their Actuaries and Staffs."

Trustee Savings Landmark

AT the end of November last, outstanding tax certificates reached a new record level of £610 millions. The following table summarizes the movement of the tax certificate issue over the past twelve months. A similar table covering the earlier period from December 1941 onwards was given on p. 156 of the March 1943 issue:

Tax Certificates

TAX CERTIFICATES

		Raised	Redeemed	Net Subscriptions	Outstanding (end of month)
		£m.	£m.	£m.	£m.
1942	November	26.1	5.5	20.6	433.1
	December	47.1	10.2	36.9	470.0
1943	January	48.7	24.7	23.9	493.9
	February	45.2	70.3	—25.0	468.9
	March	46.3	72.1	—25.8	443.1
	April	26.3	12.0	14.3	457.4
	May	39.9	16.8	23.1	480.5
	June	46.5	13.1	33.4	513.9
	July	47.6	24.4	23.2	537.1
	August	29.7	16.3	13.4	550.5
	September	54.0	21.8	32.2	582.7
	October	45.3	30.3	15.0	597.7
	November	27.3	15.0	12.3	610.0

DETAILS were given last month of the proposed contributions for European relief, assessed in general on the basis of 1 per cent. of the national income of the contributing country. Fuller reports state that not less than 10 per cent. of these contributions (i.e. £8 millions in the case of this country) are to be in foreign exchange. Invaded member countries, such as the U.S.S.R. and China, are not included in the 1 per cent. recommendation. So far as possible, U.N.R.R.A. will utilize contributions of member governments at an approximately equal rate. Its policy will be not to deplete its resources to provide aid in an area whose government is in a position to pay, the decision on this point to be made by the Director-General or by the Council itself in the event of disagreement. On the other hand, its policy will be against causing any government to assume the burden of an enduring foreign exchange debt to obtain aid. Administrative expenses for 1943 and 1944 are placed at $10,000,000, of which the U.S. will contribute 40 per cent., and Great Britain, China and the Soviet Union together 35 per cent. Member governments are requested to ensure that supplies and services furnished by U.N.R.R.A. are not subjected to taxation.

U.N.R.R.A. Finance

The Banking Year at Home

WARTIME banking trends were epitomized in the rise of Treasury deposit receipts, in November last, to the position of the largest banking asset, relegating investments to second place with advances a poor third. With Treasury bills in constant demand as a repository for overseas sterling balances, and the banks seemingly unwilling to make any further substantial additions to their investment holdings, Treasury deposit receipts have for some months past provided almost the sole counterpart of the additional deposits generated by deficit finance. The abnormal liquidity of the assets structure has in consequence been further accentuated during 1943.

Expansionary trends were signalized by the repeated passing of that statistical landmark, the £1,000 millions mark: in February by T.D.R. outstandings, in April by the fiduciary issue, in September by the T.D.R. holdings of the clearing banks, in November by the active note circulation. While the expansion in bank deposits has continued steadily, however, there has not been any significant change in its tempo—properly interpreted, indeed, the figures show a certain slackening in the movement. On the other hand, the year was marked by a decided acceleration in the upward trend of the note circulation. For a few months this was held in check by the decision in April to suspend issues of denominations of £10 and upwards—a move doubtless intended primarily to inconvenience tax evaders and black market operators. In the thirteen weeks to December 22, however, net withdrawals amounted to just over £100 millions, against £89 millions in the corresponding period of 1942. For the first ten months of the year the circulation of notes and coin in the hands of the public averaged, according to the Bank of England estimate, £751 millions, an increase on the year of as much as £167 millions, or over 22 per cent. To some extent, no doubt, this movement indicates hoarding, but the very heavy demand for currency of the American forces is a factor to be borne in mind. It will in any case be necessary to await the publication of the Budget White Paper, showing the trend of the national income and the wages bill, to judge whether the conventional expressions of concern evoked by the upward trend have any real justification.

It is interesting to note that the clearing banks have played no part in the withdrawals. Indeed, in the four months July to October, bank till money averaged only £145.4 millions, or £4.1 millions *less* than in the corresponding period of 1942, although deposits were on the average £374 millions higher calling for £37 millions of additional cash to maintain the normal cash ratio. Comparative freedom from air raids will, of course, have facilitated this economy in till money, which has the air of a concerted movement. Since the usual cash ratios have been maintained, it follows that a larger proportion of bank cash has taken the form of central bank credit. Though the figures for a single week cannot be fully representative, this tendency is clearly reflected in the comparison of Bank returns opposite which shows a rise of £16 millions on the year, against only £5 millions, in the Banking Department's deposit liabilities.

Deficit finance continues, of course, to be the main determinant of banking trends, and the fiscal background of the past year was almost identical with that of 1942. In the twelve months to November 1942, the deficit amounted

SUMMARY OF BANK RETURNS

	1943 Dec. 8 £m.	Change on year £m.	Change 1942 on 1941 £m.	Change 1941 on 1940 £m.
Fiduciary issue	1,100.0	+ 150.0	+ 170.0	+ 150.0
Active circulation	1,045.3	+ 155.8	+ 162.9	+ 122.1
Banking Department :				
Reserve	56.4	— 5.0	+ 6.9	+ 27.6
Securities	174.9	+ 20.9	— 1.9	— 18.7
Deposits	213.5	+ 15.9	+ 5.0	+ 9.0

to £2,699 millions, of which £1,718 millions was covered by large and small savings in the third campaign year, leaving £981 millions to be met from other sources of finance, including borrowing through the banking system. For the succeeding twelve months the deficit was £243 millions higher, at £2,941 millions, but this increase was largely matched by an expansion of £207 millions in savings, leaving an " uncovered " deficit of only £1,016 millions.

At first sight, therefore, it is not very impressive to find that the expansion in deposits in the twelve months to November last, as shown by the next table, was as much as £129 millions greater than in the preceding year :

CHANGES BY TWELVE MONTHLY PERIODS

	Nov. 1939 to Nov. 1940 £m.	Nov. 1940 to Nov. 1941 £m.	Nov. 1941 to Nov. 1942 £m.	Nov. 1942 to Nov. 1943 £m.
Deposits	+ 357.3	+ 506.3	+ 263.7	+ 392.7
Cash	+ 39.7	+ 46.8	+ 35.0	+ 36.2
Call Money ..	— 1.5	— 13.8	+ 8.1	+ 20.0
Discounts	— 14.6	— 93.0	— 4.5	— 57.3
T.D.R.	+ 236.0	+ 415.0	+ 152.5	+ 383.0
Investments ..	+ 132.0	+ 255.9	+ 118.7	+ 49.4
Advances ..	— 71.7	— 114.2	— 46.3	— 39.0

Recent trends are, however, intelligible only if deposits are considered in conjunction with issues of tax certificates, which must represent almost entirely funds that would otherwise be held in the form of bank balances. It was, of course, the initial rush of subscriptions to tax certificates which so sharply checked the expansion of bank credit in 1942. Though the outstanding total of tax certificates has reached the remarkable figure of £610 millions, this represents an increase of only £177 millions on the year, against £433 millions. Taking deposits and tax certificates together, therefore, the truer comparison is as follows :

	Twelve Months to : Nov. 1943 £m.	Nov. 1942 £m.	Nov. 1941. £m.
Deposits	+ 392.7	+ 263.7	+ 506.3
Tax Certificates ..	+ 176.9	+ 433.1	—
	+ 569.6	+ 696.8	+ 506.3

Proportionately, the check to credit expansion during 1943 was, of course, still more striking than the absolute decline, the combined increase—still lumping deposits and tax certificates together—being only 14.6 per cent, against 21.7 per cent.

If one includes the tax certificates which are so efficient a substitute for bank credit, therefore, the expansion in deposits continued to be much more restrained than that in notes. Whereas the note circulation has more than doubled since the outbreak of war, actual deposits have risen since August 1930

by only 72 per cent., as will be apparent from the next table:

CHANGES IN CLEARING BANK CREDIT

	Nov. 1943	Change on Aug. 1939	Average 11 months, Jan./Nov Change 1943 on 1942	Change 1942 on 1941
	£m.	£m.	£m.	£m.
Deposits	3,864.6	+ 1,619.4	+ 401.7	+ 305.7
Cash	402.9	+ 170.0	+ 41.5	+ 29.3
Call Money	154.6	+ 7.1	+ 20.9	— 2.3
Discounts	183.9	— 95.2	— 48.2	+ 1.5
T.D.R.	1,186.5	+ 1,186.5	+ 355.9	+ 147.8
Investments ..	1,166.9	+ 567.5	+ 81.8	+ 179.5
Advances	724.0	— 260.5	— 51.9	— 62.4

A feature of the wartime expansion in deposits has been the extent to which the additional credit has been retained on current account, no doubt owing to the very small incentive left by wartime taxation and cheap money for the transfer of funds to deposit account. In 1943, current account balances accounted for two-thirds of all deposits, compared with little more than half before the war. On the other hand, last year's increase in current accounts, at £268 millions, was only £5 millions greater than in 1942, whereas deposit accounts rose by £79 millions, against £43 millions.

DEPOSIT AND CURRENT ACCOUNTS

	Current	Deposit	Total	Current as % of Total
	£m.	£m.	£m.	%
1939	1,252	996	2,248	55.7
1940	1,487	1,018	2,806	59.3
1941	1,885	1,085	2,970	63.5
1942	2,148	1,128	3,275	65.6
1943*	2,416	1,207	3,623	66.7

* Ten months only.

So far as the assets structure is concerned, the general trends have been a continuation of those previously in progress, but with a sharp acceleration in the rate of expansion of T.D.R. holdings and a very noticeable check to the rise in investments. The decline in advances, also, showed signs of slowing down during the latter half of the year, while money market assets—now that the Treasury bill has been entirely superseded by Treasury deposits as an instrument of deficit finance—have fallen to levels lower even than before the war. The changes in the main assets by quarterly periods are summarized in the following table:

MOVEMENTS BY QUARTERLY PERIODS

	Deposits	T.D.R.	Money Market Assets	Advances	Investments
	£m.	£m.	£m.	£m.	£m.
1941 I ..	— 35.7	+ 60.5	— 97.4	+ 2.1	+ 49.6
II ..	+ 181.6	+ 108.0	+ 9.9	— 48.9	+ 59.2
III ..	+ 168.6	+ 49.0	+ 113.2	— 33.0	+ 59.1
IV ..	+ 214.7	+ 227.0	— 136.7	— 19.5	+ 59.3
1942 I ..	— 257.3	— 282.5	— 12.9	+ 31.0	+ 51.2
II ..	+ 191.2	+ 67.0	+ 139.8	— 37.4	+ 8.5
III ..	+ 95.1	+ 150.5	— 36.0	— 25.9	+ 38.4
IV ..	+ 270.4	+ 202.5	— 63.6	— 1.6	+ 23.5
1943 I ..	— 86.7	— 12.0	— 27.9	+ 3.8	+ 12.2
II ..	+ 88.5	— 25.0	+ 89.2	— 32.7	+ 26.6
III ..	+ 106.6	+ 186.0	— 44.2	— 10.6	+ 1.1
IV* ..	+ 127.6	+ 142.0	— 18.3	— 9.3	+ 6.8

* October/November only.

It will be seen that in the first quarter of 1943 the decline in deposits was only one-third as great as in the corresponding months of 1942, when the initial rush of subscriptions to tax reserve certificates was superimposed on a peak revenue inflow. Even so, money market assets were allowed to run off to the tune of £28 millions, against only £13 millions a year earlier. Since, in addition, the two main earning assets increased only by £16 millions, against £82 millions, the fall in T.D.R. holdings was limited to a mere £12 millions, as compared with no less than £282 millions in the first quarter of 1942.

In the following three months, however, there was a temporary recovery in money market assets which just about made good the decline of the previous two quarters, and there was even an indirect exchange out of Treasury deposits into money market assets to the extent of £25 millions. In spite of this obvious attempt at rebuilding the banks' bill portfolios, discounts at the end of June amounted only to £236 millions, or less than in June 1939. In the succeeding five months, moreover, this movement was abruptly reversed, and although £100 millions was added to the outstanding issue of tender Treasury bills, the money market assets of the clearing banks fell away again by £62 millions. As in addition the main earning assets also showed a slight decline in these five months, T.D.R. holdings shot up by no less than £328 millions, or by considerably more than the expansion of £234 millions in deposits over this period.

The check to the rise in investments has been extremely marked. In the first six months of the year, the combined securities holding rose only by £38.8 millions, against £59.7 millions in the first half of 1942, while in the succeeding five months the net addition to this item was no more than £7.9 millions, against £59.1 millions. These figures inevitably give the impression that bank investment holdings are nearing their peak and that Treasury deposit receipts are likely henceforth to provide virtually the entire counterpart of any additions to deposits. It will be especially interesting to see whether the banks will "support" this year's special savings campaign on the same lines as in former years by adding heavy subscriptions on their own account to the sums raised from the public.

It remains to be seen, also, whether the authorities will maintain the same predilection that they have shown in recent months for Treasury deposit borrowing as opposed to Treasury bill finance. For some time past, this policy has been pushed to fantastic lengths. Thus, although the weekly Treasury bill offer was raised to £100 millions during October, it reverted again in November to its former level of £90 millions, with the result that the tender Treasury bill issue was stabilized at £1,210 millions after a seasonal increase of only £40 millions. Not only have the authorities therefore been relying entirely on T.D.R. borrowings to finance the current deficit, but the weekly T.D.R. call has repeatedly been pitched so high that special buying of bills has been necessary to prevent undue stringency in the money market. In consequence, even the nominal allotment of Treasury bills gives an unduly favourable picture of the situation, the effective amount of bills outstanding at any time being considerably less than appears. It is clear that the limitation on the capital resources of the discount market gives no justification for this policy; for if the market is able to subscribe for bills in the first place, it could just as readily pass these on to the clearing banks as to the special buyer, if only the authorities' requirements for short-term finance were correctly estimated. Whether this persistent overstatement of T.D.R. requirements

has been prompted by exaggerated fears of Ways and Means borrowing, there is no means of judging. But it would clearly be absurd if the banks were to be starved of a useful item in their assets structure, and the money market kept in a state of artificial strain, merely on account of anachronistic prejudices against a particular form of short-term finance, which has been robbed of its former inflationary implications by direct controls and improved methods of war finance.

The net result of these various trends has, of course, been still further to accentuate the abnormal liquidity of the assets structure. As will be seen from the next table, the four "liquid assets" now provide the counterpart for almost exactly half of the clearing banks' deposits, compared with 44.6 per cent. in November 1942 and a normal liquid assets ratio of about 30 per cent. For the first time, too, these liquid assets actually carry more weight in the banks' balance sheets than the main earning assets, which now show a combined ratio to deposits of only 48.9 per cent. against a pre-war 70 per cent. After four years of uninterrupted decline, indeed, the advances total is now actually lower than at the absolute trough of the pre-war depression, when the lowest point touched was £735 millions in January 1934.

CHANGE IN BANKING RATIOS

	August 1939		November 1941		November 1942		November 1943	
	£m.	%	£m.	%	£m.	%	£m.	%
Deposits	2,245	100.0	3,208	100.0	3,472	100.0	3,865	100.0
Cash	233	10.4	332	10.4	367	10.6	403	10.4
Call Money	147	6.5	126	3.9	135	3.9	155	4.0
Bills	279	12.4	246	7.7	241	6.9	184	4.8
Pre-war "Liquid Assets"	659	29.3	704	21.9	743	21.4	742	19.2
T.D.R.	—	—	651	20.3	804	23.2	1,186	30.7
Total "Liquid Assets"	659	29.3	1,355	42.2	1,547	44.6	1,928	49.9
Investments ..	599	26.7	999	31.1	1,117	32.2	1,167	30.2
Advances	984	43.8	809	25.2	763	22.0	724	18.7
"Earning Assets" ..	1,583	70.5	1,808	56.3	1,880	54.2	1,891	48.9

Though the increase in investments over the twelve months to November last was sufficient to offset the decline in advances with a margin of £11 millions, the indications are (assuming $2\frac{1}{2}$ on investments and 4 per cent. on advances) that the earnings from these two assets in November 1943 were actually about £310,000 lower on the year.

In spite of this abnormal liquidity, earnings in the aggregate must, nevertheless, be steadily increasing. On the average (as will be seen from the table on p. 6), T.D.R. holdings in the first eleven months of 1943 were £356 millions higher on the year and investments £82 millions higher. It would appear that the earnings on these additional resources should offset the loss of income from money market assets and advances with a margin of some £3,700,000 in hand. While this is admittedly only the first approximation towards any estimate of profits, it is difficult to believe that anything like the whole of these additional asset earnings can have been swallowed up by increased expenses. It will, therefore, be more surprising than ever if the forthcoming reports should show that in 1943, as in 1942, no bank has yet become liable to E.P.T.

Trading with the Enemy

By David Sachs

EVERYONE concerned with wartime legislation is indebted to Mr. Howard for his pioneering work on the Defence (Finance) Regulations. The obligation is now increased by the present volume.* Here, it is true, the ground has been worked over previously, but none of his predecessors has had Mr. Howard's advantage of intimate and extensive experience of the practical working of the Trading with the Enemy enactments. And this is the more important because the emergency legislation arising out of the present war has invested the Executive with very large powers which are frequently not subject to review by the Courts. As Mr. Howard says: "One feels that many of the legal questions that arise can only be 'answered in the interrogative.'" What is needed, therefore, is less a nice exposition of the theoretical legal points involved on any particular issue (though Mr. Howard gives full measure here) than a statement of the practice of the Government Departments.

The form of presentation followed in the present volume is similar to that which was found convenient in dealing with the Defence (Finance) Regulations. The text of the various statutory enactments is given (not the least of the book's merits is that it thus brings together all the legislation on the subject), prefaced by a short explanatory note on each section or article, and followed by a detailed commentary on the text itself. In addition, there is a full description introducing the whole subject of Trading with the Enemy with a detailed account of the common law position, particularly in relation to the enemy's right of access to the Courts and the effect of the war on contracts. There is also a number of very useful appendices containing, *inter alia*, the most important Orders dealing with imports and exports, patents, designs, copyright and trademarks, the censorship and registration of claims against the enemy.

Who is an enemy? For the answer we must first go to S. 2 of the Trading with the Enemy Act, 1939, where the term as applied to natural and artificial persons (i.e. individuals and bodies corporate or unincorporate) is comprehensively defined. So far as individuals are concerned, we may summarise by saying that everyone resident in enemy territory is an enemy, but this does not include persons involuntarily detained there, such as prisoners of war. The position regarding artificial persons (i.e. bodies corporate or unincorporate) is less easy to establish. First of all, the Act brands as enemy "any body of persons constituted or incorporated in, or under the laws of, a state at war with His Majesty"; secondly, any individual or body of persons carrying on business in enemy territory; and, thirdly, any body of persons carrying on business in any place if that body is controlled by enemies. There is no problem in identifying class one, but there is a certain amount of doubt about class two, and often a considerable degree of difficulty regarding class three. By way of preliminary it should be noted that enemy territory means "any area which is under the sovereignty of or in the occupation of a Power with whom His Majesty is at war," and the Board of Trade is in addition authorized to specify any territory as enemy territory.

*Howard, *Trading with the Enemy*, (Butterworth, price 10/6).

It was argued in a recent case (*Sovfracht (v/o)* v. *Van Udens Scheepvaart Maatschappij* [1943] A.C. 203) that the carrying on in Holland of a business which did not actually assist the Germans, and where the persons were merely trading in order to continue existence, did not suffice to establish the enemy character of the traders. This view was rejected by the House of Lords. "The test," in the words of Lord Wright, "is objective and depends on facts, not on the person's prejudices or passions, his patriotism or his determination to free his country whenever he can." Provided the area is subjugated by the enemy (and the notion that such subjugation may only prove temporary is legally irrelevant), it is deemed to be enemy territory. What, however, of a body of persons associated for some charitable or educational purpose, such as the *Académie Francaise*, to use an illustration quoted by Mr. Howard? The author takes the view that such a body whose objects are not those of trade does not carry on a business and is therefore not an enemy. Presumably, therefore, any assets in this country would not be liable to the provisions of the Custodian Order. On the same grounds, the funds of religious communities in France, represented, say, by money held on an account with a bank in this country, would likewise be exempt. Mr. Howard notwithstanding, one would nevertheless suggest that a bank would be wise, before parting with funds held for such a customer, to obtain the necessary licence of the Board of Trade. It will be recalled in this connection that in the case of *Central India Mining Company* v. *Société Coloniale Anversoise* [1920] 1 K.B. 753, the collection and payment of debts was enough to attract enemy character. Another curious exemption is that the Government *qua* Government of a country occupied by an enemy is not an enemy. Any funds held here for account of, say, the French Treasury, would, therefore, not be subject to the restrictions of the Trading with the Enemy Act or the Custodian Order. It is perhaps in line with this reasoning that claims against the French Government or the Government of any occupied country are not admitted to the Board of Trade Register of Claims against enemies, although claims against individuals and companies in those countries are admitted.

The task of establishing the character of a body of persons carrying on business under the Control of Enemies is often much more difficult than would at first appear. The leading case on the subject is a decision of the House of Lords during the last war (*Daimler Co., Ltd.*, v. *Continental Tyre and Rubber Co. (Gt. Britain) Ltd.* [1916] 2 A.C. 307) in which the position was put in six propositions by Lord Parker. The chief of these, as summarized by Mr. Howard, are: "(1) A company can only act through agents properly authorized, and if those agents carry on business here and are resident here or in neutral territory, the company is not an enemy. But (2) it may assume an enemy character, which will be the case if the persons in *de facto* control, authorized or not, are resident in enemy territory or wherever resident adhere to the enemy or take instructions from or act under the control of enemies. (3) The character of individual shareholders cannot of itself affect the character of the company, but may be very material on the question where the company's agent or the persons in *de facto* control of its affairs are, in fact, adhering to, taking instructions from or acting under the control of enemies. If after eliminating the enemy shareholders the number remaining are insufficient to hold meetings or appoint directors or officers, there is a strong presumption of enemy control."

Mr. Howard later goes on to state (p. 38) that shareholding control alone has nothing to do with the question whether a company is "enemy controlled." With all respect, one feels that this interpretation does violence to the actual words used by Lord Parker. These are (p. 345): "But the enemy character and the conduct of the shareholders may be material on the question. This materiality will vary with the number of the shareholders who are enemies *e.g.* even if the secretary has been fully authorized to manage the affairs of the company the fact that he held one share only out of 25,000 shares and was the only shareholder who was not an enemy may well throw on the company the onus of proving that he was not acting under the control of the King's enemies in such a manner as to impose an enemy character on the company itself. It is an *a fortiori* case when the secretary is without authority and necessarily depends for the validity of all he does on the subsequent ratification of enemy shareholders." Nor does any system of remote control, say by a series of holding companies, avail to defeat the implication of enemy character if the shares of the parent company are owned by enemies. "Where the object to be obtained is unlawful, the indirectness of the means by which it is to be obtained will not get rid of the unlawfulness. *Fraus circuitu non purigatur*" (*per* Lord Halsbury in the *Daimler Case* on p. 315).

What is Trading with the Enemy? Here, too, the aswer is comprehensively formulated by the Trading with the Enemy Act, 1939 (1) 2, as "any commercial, financial or other intercourse or dealings with, or for the benefit of, an enemy." It is difficult to imagine any definition more sweeping, and this is particularly true of the words "for the benefit of"; for the judiciary, both in the last war and the present one, have resisted all attempts to limit their scope. "These words were deliberately introduced for the purpose of preventing devices, tactics and various means by which mercantile houses might seek, but for those words, to make payments indirectly, notwithstanding that there is an express prohibition of a direct payment" (*per* Lord Reading in *R.* v. *Kupfer* [1915] 2 K.B. 231). "These words are of the widest possible character . . . it would be improper to suggest any limitation" (*per* Lord Greene in *Stockholms Enskilda Bank* v. *Schering* [1941] I K.B. 424).

The prohibition on trading with the enemy has a direct bearing on the validity of contracts to which an enemy or even a neutral is a party. Mr. Howard's discussion of this important topic is full and illuminating, but the rather elusive nature of the subject matter makes any attempt at summarization peculiarly difficult. Some of the basic principles may, however, be usefully mentioned. It is clear that as from the outbreak of war no contract can be entered into with an enemy. It would simply be a nullity and "have no legal existence" (*per* Lord Stowell in *The Hoop* 1 Ch. Rob. p. 200). Contracts already in existence depend for their validity on whether or not they provide for any means of communication with, or the conferring of any benefit on, an enemy. In the case of most executory contracts (i.e. where the consideration has not passed) the contract is abrogated. "The reason for this is that, even if performance were postponed until after the war, the mere existence of the contract during the war might benefit the enemy by, for example, improving his credit" (*per* Lord Greene in *Schering Ltd. v. Stockholms Enskilda Bank* 1943 2 All E.R. 491). In fact, most of the authorities go even further and assume that the existence of the contract will *ipso facto* confer a benefit upon

the enemy and must therefore be dissolved. The main class of contracts which are not abrogated is that associated with proprietary rights, as for example, a share in a company or a lease or a bank balance. The relationship between the parties is largely, if not entirely, a contractual one, but the war does not dissolve the contract. The enemy's rights under the contract are, however, made subject to control and any payments due to him (e.g. by way of dividend or rent) are payable to the Custodian of Enemy Property. The Board of Trade may also vest the ownership of the particular property in the Custodian, thus evidencing the continued existence of the contract.

The points selected for discussion are, of course, no more than a few of the important topics dealt with in this extremely useful volume, which should prove not only a mine of information but a continual stimulus to further study on the part of all concerned with international banking.

Banking in German-Controlled Europe

THE change in the military situation and outlook that took place during 1943 has resulted in some far-reaching changes in the banking situation in German-controlled Europe. This was due partly to the weakening of confidence in the reichsmark within and outside Germany, and in part to the accentuation of the inflationary trend in German-controlled countries owing to their intensified exploitation by Germany.

The German policy of acquiring control over banks in occupied countries and in satellite States was carried a stage farther during the past year, even though—a very advanced stage having already been reached in this direction in 1942—there were no spectacular new developments. Indeed, as a result of the military successes of the Allies, some of the territories covered by the tentacles of German banking have been liberated from that control. Thus, it is satisfactory to note that the labour spent by the German authorities in building up an elaborate banking system in the Ukraine and White Russia has been rendered fruitless by the evacuation of a large part of those territories by the German forces. Similarly, German banking influences in Southern Italy, Sardinia, Corsica, and parts of Yugoslavia have been brought to an end through the progress of the Allied armies. On the other hand, on territories still under German control, the efforts to tighten the stranglehold of German banks over the local banking systems have been further intensified.

Until 1942, Continental finance appeared to be settling down to some kind of uneasy equilibrium based on the prestige of the reichsmark. That currency was made into an inter-European currency which formed the centre of all currency systems in German-controlled countries. Confidence in its stability was based on the assumption that Germany would be able to retain her conquests, and that consequently all the resources of the subject races would remain available to serve as security behind the currency of the ruling race. During 1943, it became increasingly evident that Germany would have to abandon her conquests and that her defeat was merely a question of time. This inevitably undermined confidence in the stability of the reichsmark, all the more as the range of goods which the reichsmark was able to buy in Germany was becoming narrower through lack of man-power for the production of civilian goods.

The result of this distrust was to create a tendency towards buying up everything with intrinsic value, and an increase of note hoarding. These symptoms became increasingly noticeable both in the Reich and in German-controlled countries. While bank deposits continued to expand, the increase of the note circulations was gathering momentum.

To some extent this was due to note hoarding, which increased the note requirements of the public. To a much larger extent, however, it was due to the impossibility of covering the gap between revenue and expenditure by means of normal borrowing. In Germany and in German-controlled countries, the deficit had to be met largely with the aid of the printing press. All central banks in German-controlled Europe have increased their Government advances and their note circulation to a much larger degree in 1943 than in previous war years. In most German-controlled countries the process of inflation has reached much more advanced stages than in the Reich itself. This is explained by the fact that in 1943, as in previous war years, Germany was financing the war largely by inflating the currencies of other countries rather than her own. To the extent to which she has been able to do this, the degree of inflation in Germany has been kept down. Even so, it has been gathering momentum during the past twelve months. German-controlled countries, on the other hand, had to bear the burden of the German inflation which was passed on to them. Thus, their central banks continued to finance the ruinous occupation costs imposed on them by Germany, and also the growing export surplus in their trade with Germany.

Owing to the stringent control exercised all over German-occupied countries, the inflationary trend has not yet produced any rising trend in interest rates. On the contrary, money is still plentiful in most Continental countries, owing to the non-stop inflation which replenishes the supplies of notes as soon as hoarding and a rise in prices tends to produce a scarcity of currency. The banks continue to be subjected to heavy demands for credit, and owing to their large turnover their profits are considerable. Their commissions on Stock Exchange transactions, on the other hand, suffered to no slight extent as a result of the restrictions imposed on these transactions by the German authorities.

The prospects for Continental banking are anything but favourable. In all probability, the greater part of the Continent will become a battlefield in 1944, a large part of the properties which now serve as a security to bank loans will be destroyed. Germany has already received a foretaste of things to come in the form of the Allied air raids. The damage caused by these raids has given rise to a formidable banking problem ; for while in theory the German government is supposed to pay compensation for war damage, in spite of this banks are not at all happy about loans which are now secured only by the debtors' claim for compensation. This problem will increase in importance as and when the R.A.F. offensive continues to destroy towns.

Judging by experience in Italy, it is probable that the retreating German troops will remove from the banks in evacuated territories all liquid cash and securities they can lay hands upon. Many of the bank premises, with books and correspondence, are also likely to fall victims of the German scorched earth policy. Conditions in Continental banking are likely to become, therefore, very difficult during the next twelve months, and profits made in recent years under the influence of inflation are likely to be wiped out.

The Elusive Dollar

UNTIL recent years, it was customary to take for granted that almost any economic disequilibrium could be resolved by a sufficiently drastic adjustment in price. As applied to the specific case of the dollar problem, this would imply that all the difficulties have been due to the American tariff or to an over-valuation of the dollar, and would disappear overnight, given a sufficient lowering of the tariff barrier or sufficient appreciation of the dollar in terms of other currencies. This approach, of course, overlooks two fundamental difficulties. The first, and more familiar, is that if the demand of other countries for American exports, and the demand of the United States for the exports of other countries, are both highly inelastic to changes in price, then a depreciation of other currencies in terms of the dollar may actually cause a deterioration in their balance of payments and will certainly turn the terms of trade against them.

The second and more important difficulty, which even nowadays is not sufficiently widely appreciated, is that if U.S. imports and exports are little affected by changes in price, then they will be determined almost entirely by the level of the notoriously unstable national income of the United States itself. This latter factor may or may not be within the control of the United States ; but it is certainly quite beyond the control of any third party. There is nothing, in other words, that the *outside* world can do to solve the fundamental dollar problem within the normal framework of free exchanges and multilateral trading. If a solution is to be found within that framework, then it must be found by the United States itself, and must take the form of policies which will serve to stabilize American national income at a high level. And if the problem is not solved along these lines, then the only course for the rest of the world will be to abandon any attempt at maintaining free exchanges and multilateral trading, so far at any rate as the United States is concerned, and to seek their salvation along other lines.

This is precisely the conclusion reached in a statesmanlike survey of the whole dollar problem by the U.S. Department of Commerce, published under the title " The United States in World Economy " (Economic Series No. 23). " Unless dollars are made available with greater regularity than in the past," it is pointed out, " it would be both unjust and unwise to demand the removal of restraints and controls largely designed to protect the internal economies of other countries against external shock and pressure. . . . Unless the supply of dollars is more adequate to meet foreign requirements, other countries will assuredly insist on their rights to exercise a close selective control over the use of the amounts available and to promote more intensive relations with third countries under preferential trading arrangements."

With truly admirable frankness and insight, the report reviews all the statistical material relating to the United States balance of payments since the close of the last war. It recognizes that one important source of disequilibrium in the past was the erratic movement of foreign funds, " which went largely into speculative stock market transactions, were of little or no benefit to this country and did positive damage to other countries." But " the conclusion that emerges most emphatically from the survey is the fundamental importance of maintaining conditions conducive to a more

stable and ample flow of dollars in our transactions with other countries. The most essential of these conditions lies not in the field of foreign economic policy as such but in the attainment of a more fully and more smoothly operating domestic economy—the major determinant of the volume and course of our purchases of foreign goods and services."

The fantastically wide variations in the supply of dollars are brought out in the following table :

TOTAL DOLLARS SUPPLIED

THROUGH CURRENT AND LONG-TERM CAPITAL TRANSACTIONS

	$ m.		$m.		$m.
1919	10,350	1926	7,289	1933	2,367
1920	9,128	1927	7,303	1934	2,615
1921	4,853	1928	7,507	1935	3,408
1922	5,331	1929	7,398	1936	3,728
1923	5,567	1930	5,907	1937	4,548
1924	6,029	1931	3,912	1938	3,335
1925	6,823	1932	2,409	1939	3,657

From the 1919 peak of $10,350 millions, it will be seen, the supply of dollars was more than halved within two years, to only $4,853 millions in 1921. Again, after 1929, the dollar supply shrank within three years to less than one-third of its boom level, to be practically doubled again between 1933 and 1937. These movements are, of course, closely correlated with the enormous fluctuations in American national income between boom and slump.

So far as the future is concerned, the outlook is not too bright, even on the favourable assumption that the goal of a more fully functioning economy in the United States will be attained ; for, as the Report points out, the resulting stimulus to imports should not be exaggerated. Imports of raw materials and semi-manufactured goods are tied to the rate of domestic industrial activity and show no tendency to rise any faster ; for imports of foodstuffs, the possibilities of expansion are still more narrowly circumscribed. Added to this is the trend towards greater self-sufficiency in the United States as elsewhere. On the side of services, the United States is tending to become more independent of foreign countries in respect of shipping, while personal remittances are unlikely to be so important as in the past. Given prosperity and political security, travel outlays may again reach or exceed the high levels touched in 1929—but the latter figure was only $483 millions.

A special danger for the immediate post-war period is the accumulation of foreign short-term assets in the United States, to a total of over $6,500 millions, which " if suddenly released for expenditure on American goods in short supply after the war . . . could help to support for a time a major inflationary boom—to the long run detriment of all concerned . . . It would be wholly desirable if a large part of these funds were changed into long term investment, along with American capital."

As a means towards a solution, the Report turns inevitably to the possibilities of international lending by the United States (though this admittedly only postpones inevitable adjustments) and of a reduction in United States trade barriers (though it has been seen that this would accomplish little without the maintenance of United States prosperity at home). " What is emphatically not possible," in any event, " is to have it both ways—a large volume of dollar receipts against a small volume of dollar payments. Yet United States

foreign economic policy in the past has been largely predicated upon this manifest impossibility, most notably when the tariff on imports was sharply increased on two occasions in the face of continued efforts to collect war debts and promote exports. . . . Of even greater importance than the general level of the flow of dollar payments is the need for continuity and regularity in our foreign economic policy and in the actual behaviour of our international transactions. It would be tragic indeed if the United States, after a period of renewed full participation in the world economy, were to permit another abrupt fall in the supply of dollars to disturb the recreated international trading and financial mechanism, whether wilfully through increased trade restrictions, carelessly through misbehaviour of foreign investment, or involuntarily through the improper functioning of the domestic economy. . . . On the solution of these problems through the maintenance of a high and reasonably stable level of economic activity in the United States the interests of this country and other countries are most clearly and indisputably united."

Australasian and South African Finance

By E. A. Grant

THE scale of the Australian Budget for 1943-44 suggests that the Dominion is now beginning to reach the limit of the resources which can be diverted to the war. At £A.570 millions, the estimate of war expenditure for the current year exceeds the previous year's actual figure by less than £A.10 millions. Admittedly, the realized expenditure in 1942-43 was more than £A.120 millions higher than last year's Budget estimate, but it seems unlikely that so substantial an under-estimate will be repeated. At the current rate, Australian war expenditure already represents 50 per cent. of the national income.

The total expenditure envisaged for this year is £A.715 millions, of which £A.312 millions is expected to be met by taxation and other receipts, and the balance of £A.403 millions from borrowings. No new taxation was imposed in the Budget, but it will be remembered that special increases were introduced last February, when it became evident that the 1942-43 war bill was going to be much higher than had originally been expected. This additional taxation will yield a higher revenue during the full current year, but the decline in the proportion of expenditure financed by borrowing is not likely to be very substantial.

Although Australian taxation, according to the Commonwealth Treasurer, Mr. Chifley, is now as severe as that imposed in any other Allied country, and although a few commodities at least are rationed, the policy of the Government has been to concentrate on price control as its principal method of combating inflation. A comprehensive price stabilization scheme has not long been in operation, but it is already claimed to be working with unexpected smoothness. It is estimated that the subsidies required in the first year will amount to £A.12 millions. The method of control adopted has been to peg prices at the level prevailing on April 12, and to permit no further adjustments for higher costs. In the case of imported goods it is, of course, impossible to prevent costs from rising, but the increase must either be met by a decline

in profit margins or by Government subsidy. If this system is effective, it should have the same result as the Canadian system of checking the inflationary spiral. Stabilization of the cost of living should prevent any further automatic increase in wage rates.

As the Budget figures show, the greater part of the financial cost of Australia's war effort is met by borrowing. Last year subscriptions to public loans and War Savings Certificates accounted for £A.215 millions out of a total of £A.403 millions borrowed. The balance was represented by issues of Treasury bills to the Commonwealth Bank and, to a much smaller extent, to the trading banks. The machinery of this deficit financing is for the trading banks to re-deposit with the Commonwealth Bank their additional wartime deposits, and for the latter to pass the money on to the Government by taking up Treasury bills. In general, the trading banks are debarred from participating in direct Government loans, but there have recently been some interesting departures from this restriction.

The table below shows that the change was already becoming apparent in the quarter to June last. Although deposits fell slightly (a seasonal movement without significance), there was almost as great an expansion in securities as in special deposits with the Commonwealth Bank; while the shift in assets was counterbalanced by a sharp fall in the banks' Treasury bill holdings. The reason for this considerable increase in the amount of securities the trading banks are permitted to hold is to be found in the original purpose of Australia's wartime banking regulations. Their aim was to prevent banking

AUSTRALIAN TRADING BANKS

(£A millions)	June, 1943	Change on Quarter	Change on Year
Deposits	453·5	— 5·9	+ 65·6
Cash	33·4	— 11·4	— 7·0
Treasury Bills	50·8	— 31·9	+ 11·2
Securities	75·7	+ 12·5	+ 19·4
Deposits with Commonwealth Bank	102·9	+ 13·7	+ 66·5
Advances	246·0	+ 11·8	— 22·3

COMMONWEALTH BANK

	Sept. 20, 1943		
Note Circulation	149·0	+ 10·6	+ 37·9
Reserve and London Funds	97·0	+ 2·1	+ 24·3
Securities	221·7	+ 7·8	+ 90·5

profits from rising above pre-war levels, and to this end the banks might be required to transfer "surplus investible funds"—that is, assets in excess of the average weekly balances in August, 1939—into special wartime deposits with the Commonwealth Bank. The greater part of the excess has, in fact, been transferred, and the rate of interest allowed, ¾ per cent., is designed to restrict banking profits to the average annual rate in the three pre-war years. The trouble with this policy is apparently that it has been too successful. While the additional deposits have earned only a very low rate of interest, the cost of handling them has been higher, and in addition there has been a sharp fall in advances, the banks' most remunerative asset. The latter movement has been due to official control over advances policy as well as to ordinary wartime factors. The combined effect of higher costs and lower earnings per unit of assets might well have been to reduce bank profits below the pre-war level. It is apparently in order to prevent this that the authorities have modified the restrictions on bank purchases of securities.

The fifth year of war finds Australia, like other countries, concerned with problems of reconstruction as well as with the immediate military purpose. At the moment, the Federal Government has inadequate powers to legislate on all the economic matters thought desirable by the Labour party, and wider powers are likely to be sought by a referendum on a Bill embodying the agreement reached in 1942 by the Canberra Constitutional Convention. These powers would include such matters as employment policy, marketing of commodities, control of monopolies, profiteering and prices, and control of overseas exchange and investment. The indications are that the present Government would like to proceed further down the road of State control and planning, but a very reasoned survey of objectives has recently been given by Mr. Chifley, who is Minister of Reconstruction as well as Commonwealth Treasurer. In his view, Australia has no illusions about self-sufficiency, and realises that it would be impossible for a country whose employment and living standards depend so much on exports to cut adrift from world economic events. The success of a full employment policy in Australia would depend on its success in the countries which constitute her principal markets.

This particular dependence of a primary producing country on external conditions is not, however, welcomed in many quarters, and it remains to be seen what will happen after the war to Australia's war-expanded secondary industries. In the engineering and textile industries, it is already said that Australia will be able to compete with Great Britain after the war. The desire for a greater degree of self-sufficiency with which to pursue a domestic policy of full employment may well encourage the retention of some of these industries, even if the more obviously uneconomic are eliminated. It should be remembered, however, that Australia's comparative cost advantage in pastoral production may well favour the concentration of resources on primary production, even if industrial costs in some lines were no higher in Australia than elsewhere. Australia must import freely if her primary producers are to retain their important share in world trade.

New Zealand, like Australia, appears to be reaching the peak of her economic war effort. War expenditure in the current year is expected to be only £NZ.4 millions higher than in 1942-43, when the total was nearly £NZ.144 millions, or £NZ.140 per head of population. It is estimated that total expenditure will amount to £NZ.214 millions, as compared with the actual

NEW ZEALAND TRADING BANKS

(£NZ millions)	July, 1943	Change on Quarter	Change on Year
Deposits	101.5	+ 8.5	+ 11.1
Advances	42.1	— 0.5	— 0.6
Investments	37.8	+ 0.2	+ 9.6
Overseas Assets	8.8	— 4.8	— 4.6
Cash	30.9	+ 0.4	+ 7.2

RESERVE BANK OF NEW ZEALAND

	Sept. 13, 1943		
Note Circulation	33.6	+ 1.4	+ 6.9
Gold and Sterling	28.3	— 1.9	+ 0.3
Advances to State	38.3	— 5.9	+ 10.0

figure of £NZ.201 millions for the previous year. Part of this increase is to be devoted to the consolidated fund, social security and development. No fresh taxation has been imposed, and the estimated yield of £NZ.88 millions

is much the same as last year's actual figure. There is, however, a considerable decline in the amount of money expected to be derived from loan issues. This reduction in borrowing is largely due to the availability of a surplus from last year to help meet the current year's expenditure. In addition, a larger amount will be derived from Lend-Lease; and reverse Lend-Lease, though substantial, will leave the gain on balance to New Zealand.

Out of £NZ.68½ millions to be raised by borrowing this year, it is expected that £NZ.56½ millions will be lent by domestic sources. New Zealand's largest internal loan, of £NZ.35 millions, was issued in June, and has played some part in absorbing the excess purchasing power which has resulted from the Dominion's favourable trade balance and expansion of war expenditure. The Government's main direct methods of checking inflation have been in the field of price control, and New Zealand's stabilization measures seem to have been no less successful than those adopted elsewhere.

The war has stimulated a great expansion in secondary industries, part of which will, no doubt, be permanent. Some idea of the scale of New Zealand's industrial development can be gathered from Mr. Nash's statement in the Budget speech that factory output in 1941-42 reached the record value of £NZ.155½ millions, or 36 per cent. above pre-war production. The increase was principally in engineering, footwear and woollen goods. Primary production continues to exceed all pre-war records.

The continued expansion in South African currency and credit is due as much to the "favourable" trade balance imposed by wartime conditions as to direct Government war expenditure. Although gold output has recently been affected by labour and equipment shortages, South Africa's gold exports remain relatively steady, while the difficulty of obtaining imports is still acute. In the earlier stages of the war it was possible for the Union to employ her export surplus in the repatriation of sterling debt. This process, however, has now been virtually completed, though the tendency for gold mining shares to return from London to Johannesburg is still fairly noticeable.

The result of this disparity between exports and imports is seen in the growth of the South African Reserve Bank's holdings of gold and investments. Normally it has been the policy of the authorities to retain the surplus in the form of gold, but there has latterly been some evidence of an expansion of sterling assets. Now that the Union's sterling debt has been eliminated, this cannot foreshadow any further repatriation, and it has been suggested that the shift in assets may be connected with recent gold sales to combat inflation in Egypt and the Middle East. If Great Britain were actually taking more South African gold for this purpose, it would account for the rise, at the expense of gold holdings, in the Reserve Bank's sterling assets. The other suggested explanation is that South Africa is accumulating funds preparatory to financing a larger proportion of her overseas war expenditure.

The internal result of the export surplus, at all events, is clearly perceptible in the sharp credit expansion shown in the table overleaf. In the absence of alternative outlets, there has been no course open to the commercial banks but to deposit their additional funds with the Reserve Bank. The amount of advances has suffered from the public's increased wartime liquidity, and loan issues have been insufficient to absorb more than a small fraction of the excess purchasing power. In the circumstances it is not surprising that Mr. Postmus,

Governor of the South African Reserve Bank, has commented on the liquidity of the banking system. His conclusion was that for a very long time to come the Union would have more capital at its disposal than its present needs demanded. This fact he made the occasion of a request that mining houses contemplating development and other new undertakings should explore the possibilities of the local capital market instead of waiting for the London market to re-open.

SOUTH AFRICAN COMMERCIAL BANKS

(£SA millions)	June 30, 1943	Change on Quarter	Change on Year
Deposits	216.5	+ 18.8	+ 55.9
Advances	35.7	— 0.6	— 4.1
Securities	64.6	— 1.4	+ 16.2
Balances with Reserve Bank	109.2	+ 18.5	+ 41.9

SOUTH AFRICAN RESERVE BANK

	Oct. 22, 1943		
Note Circulation	45.9	+ 2.5	+ 12.1
Gold	80.5	+ 8.3	+ 10.7
Investments and other assets	87.6	+ 0.4	+ 23.5

The shortage of imports, which has had so important an effect on credit conditions in the Union, has been somewhat eased in recent months. There is, of course, no comprehensive official rationing scheme, and the distribution of scarce goods has either been left to the unfettered operation of the price system or been determined by the unofficial rationing adopted by retailers. When imports from Great Britain began to dwindle seriously, it was possible for a time to replace them from United States sources. The entry of the U.S. into the war, however, created new import difficulties for South Africa, which were partially solved by the discovery of new sources of supply in South America. Imports from this area are now many times greater than before the war, but it is not thought that the new suppliers are likely to retain their position when goods are available again from the old sources. Now that slightly larger supplies are coming forward from the United Kingdom, the public is showing more discrimination in its purchases, and sales restrictions have been relaxed.

South African statesmen have been paying increasing attention recently to the post-war position of the Union. General Smuts and other Government spokesmen have commented on the merits of private enterprise, while insisting that controls must be retained in the transitional period. This attitude has been welcomed by the gold mining industry, whose operations at present are becoming steadily less profitable under the impact of rising costs and taxation. On the other hand, it may need more than a lowering of taxation to ensure a prosperous future for the industry. Part of the wartime increase in costs has doubtless come to stay, and since the industry is working a wasting asset the problem of costs is likely to become more serious as time goes on. It is in consideration of these factors that so much attention is being paid to the development of new goldfields in the Orange Free State and to the working of " ultra-deep " levels in the Rand proper. Most South Africans appear to feel confident about the monetary future of gold, which is provided for in both the Keynes and White plans, but it is recognized that the prospect of an ultimate exhaustion of the industry calls for consideration of the possibilities of greater diversification in the Union's economic activities.

War Savings and Post-War Purchasing

By Richard B. Hurton

(Chairman The Hire Purchase Trade Association; Managing Director Mercantile Credit Co., Ltd.)

IN a broadcast in March last, Mr. Churchill made a statement which was startling in its implications. It was that after the war there would be seven or eight million people in Britain each with £200 or £300 in savings. Presumably he meant savings in a form easily convertible into cash. If a mean of the Prime Minister's figures is struck one arrives at the enormous sum of £1,875,000,000, truly a breath-taking figure. Since then the Chancellor of the Exchequer has announced that small savings have risen to £2,125,000,000.

Pondering further upon the Prime Minister's statement one may imagine the fascination to the ordinary man and woman in possessing such a sum as £200 to £300 and after four years of non-spending, or whatever the period may ultimately turn out to be, the fascination of planning the spending of it and, moreover, in having something upon which to spend it. One may also imagine the dilemma of the Chancellor of the Exchequer upon being confronted with a quickly rising demand for the liquidation of even a substantial part of such an accumulation of savings. I am in no position to forecast what might be the Chancellor's attitude to such a problem nor to offer him advice, but it is permissible to put forward a few comments on the situation and they are these: (1) That when this war is over nearly all of us will find ourselves for a time having to spend all or even more than our current income, not just because spending will be a newly recaptured thrill, but of necessity. (2) The necessity will arise because everything we have is being consumed or worn out without being replaced. It is being consumed beyond what we normally consider to be the limit of its serviceability. The clothes we wear today we would have discarded long since. The same remarks apply to our shoes. We find our cars, floor coverings, some of our furniture, upholstery particularly, our domestic appliances, our radios and radiogramophones, our lawn-mowers—everything of a long-lasting nature but subject to hard wear—still functioning maybe, still useful, but worn beyond the point at which we still care to have them.

We are not, in other words, altogether saving. We are to some extent simply deferring normal spending, which is quite a different thing. Whatever may be the proportion of this £200 to £300 which is in excess of normal saving will—indeed must—" go " after the war. I have no doubt about that. Those returning from the Forces will soon want a standard of living at least as good as pre-war. Workers at home who have loyally deferred their spending will demand facilities for rehabilitating their homes, and for the means of getting back to their sports and hobbies. All these wants will require cash for their fulfilment.

Yet what a pity it would be, if it could be done and even if the Chancellor of the Exchequer were minded to release over £2,000,000,000 quickly, to see the whole or even a major portion of these " savings" dissipated in spending. Never before in our history have so many people shared the comfortable feeling of having a capital sum at their backs. While I personally am con-

vinced it would be altogether wrong to legislate for keeping these savings intact even for a period of years, I am equally convinced that a campaign of propaganda and even enticement to induce the people to leave their nest-eggs untouched would be a worthy cause, perhaps a great one.

But how reconcile the two apparently opposed forces? How provide the means of permitting the acquisition of capital goods on the one hand, yet keeping the savings intact on the other? In some classes of goods required there is no answer. In others—fortunately in those wherein a very large proportion of the spending will take place—there is a way which, in my opinion, is worth while considering. This is the intelligent use of hire purchase for that class of merchandise wherein hire purchase may legitimately be used. When I speak of hire purchase I do not mean the instalment sales of clothes and other articles whose life is comparatively short. I am referring strictly to that class of article or appliance which, like a house, may be relied upon to retain its value always in excess of the instalments remaining to be paid according to the terms of the agreement.

In support of the case for post-war hire purchase about to be given, let us look at the pre-war picture. Pre-war we found millions of our citizens acquiring long-lasting assets by hire purchase payments met out of current spending money. Certainly 95 per cent. or more of such agreements were habitually completed reasonably in accordance with the terms. In other words, the goods became the property of the hire-purchasers and the vendors were fully satisfied, and, moreover, the hire-purchasers (together with cash buyers) had the benefit of the reduced prices obtaining and which were made possible by mass-production, itself brought about by the stimulus of high consumption, due to the widespread use of the hire purchase system. Side-by-side with this great spending there was also saving. There must have been. The growth of industrial and ordinary insurance showed this, as well as the increase in national savings and savings groups, even then. Would it not be right and proper deliberately to foster the system in the immediate post-war period? Let us examine it somewhat more closely, particularly from the psychological angle. The wage and salary earning classes by habit included in their weekly or monthly spending money so much for a hire purchase instalment applied to some long-lasting article of general utility to the whole family. They could have spent this on some amusement, or let us say on more luxurious eating or drinking or on trinkets. They chose otherwise. These people know their strength and their frailties. They know that sums from £1 to a few £1s in their pockets will "go." They know, therefore, that that car or furniture, wireless set, vacuum cleaner or sewing machine which they need and want so much is unlikely to materialise if they do not obligate themselves for it first and, having got it, pay for it afterwards. Alternatively, they know that even if they may save the necessary sum they will be reluctant to part with their savings. And so they set themselves a target by entering into the instalment obligation. They have their required appliance or whatever it may be, they enjoy its use whilst paying for it and when it is paid for it is theirs. Meanwhile they have continued their regular saving habits and their savings have remained intact, have even grown.

In domestic hire purchase far too much emphasis, in my opinion, has been laid upon the phrase "pay out of income." "Pay out of spending-money"

is better and implies, the more correctly as the facts about the great majority of hire purchase transactions show, that hire-purchasers regard their instalments as a charge against that portion of their income earmarked for spending, e.g. against a wife's housekeeping allowance in poorer families or against the husband's excess pocket-money in better-off classes. Often it is both, though seldom, of course, concurrently. The wife will set-off against laundry costs the instalments on the washing machine. The husband may cut down on convivial evenings and pay for the piano. Or both will agree on putting fares covering week-end family jaunts and upon converting hotel and cafè meal costs into the instalments towards a motor-cycle combination or small motor-car, and thereafter they will picnic. The money must come from such sources. This is clear from the standard of living we enjoyed and the standard of saving which, as a nation, we created pre-war on an increasing scale. It is clear also from the continuously good experience of most of the traders who sold on hire purchase on proper lines, and that of the hire purchase financing companies.

With all this background of many years of spending by instalments whilst saving, or in the alternative spending without disturbing savings, I submit that here is a plan to encourage in the post-war period. To sum up: (1) We face a period in which personal spending must for a time exceed income then current if our people are to enjoy again reasonable standards of good living coupled with a pride in their appearance and with a high standard of domestic amenities. (2) This must mean, to some extent, the consumption of savings. (3) It should be in the national interest, and maybe of national necessity, to encourage the disturbance of wartime nest-eggs to the least degree possible. (4) We cannot do much in this direction in the fields of " soft goods," clothes, etc., which have a comparatively short life, are subject to change of fashion and so on. (5) In the other fields of long-lasting articles, appliances, motor cars, etc.—as in house property—we have something which, coupled with the excellent good sense and honesty of the public, forms a satisfactory basis for instalment credit. (6) There exists in the financial background for hire purchase many millions of pounds, being the capital and financial resources of the finance companies (" financial resources " include bank credits, depositors, insurance companies' funds and so on) and the working capital of hire purchase sellers in many trades. This is or will be available and ready to pour into the financial pool necessary to get the flow of manufacturing and distribution moving and to keep it moving.

There can be but one objection to the scheme. All the normal objections to hire-purchase—whether valid or otherwise—seem to fall down by cancelling out. Thus the people won't be " sold " the goods against their better judgment. They will be in dire need of them. Again they won't be " mortgaging their future and left to face its uncertainties, etc." They will have savings behind them—savings, in this case, that they would otherwise have cashed and spent. Remaining criticism of the system, more particularly the manner in which the less well-intentioned people in the hire purchase trade carried it on, is covered by the Hire-Purchase Act, 1938, a piece of legislation which, it may be said, had the weight of the trade behind it in its passage through the Houses of Parliament. No. The only objection can be the extra " cost " of the hire purchase service. What is the cost? It depends on the amount remaining

and the length of the agreement after the deposit has been paid. In the case of a radio set or vacuum cleaner, one or two pounds would be involved. In the case of appliances of greater unit value—furniture or a piano—trade custom among the better dealers is to keep it to 5 per cent. or 6 per cent. for each year involved. Motor cars will be about 7 per cent., motor cycles 10 per cent. for 12 months ; such percentage being charged upon the balance of the cash price remaining after deducting the deposit.

In this connection one is, of course, comparing the cost of such goods with the cash price. But then the cash price may be that much lower because of the demand which hire purchase itself makes possible—higher consumption, bigger production, lower costs, lower prices—so that whether in the long run anyone may be said to "pay" anything at all for legitimate hire purchase is problematical. To an appreciable degree the interest on the savings still intact will off-set hire purchase charges. Particularly will this apply to war savings certificates, the appreciation of which is tax-free. The peace of mind in keeping these savings, the satisfaction of having the articles themselves—these important human factors surely will outweigh the small weekly sum represented by the balance of the "cost" of domestic hire purchase remaining after allowing for the interest on savings.

How to put the plan into operation is the next point to consider. We can take a leaf out of the U.S. Government's handling of the instalment system. When the Roosevelt administration took control, our friends in America were suffering greatly from a depression and among the steps which the Government took was to request all sellers of useful articles properly sold on instalments (who had, for a time, considerably "tightened up") to permit, if possible, a reasonable reduction in deposits and a lengthening of terms, arguing that these steps would tempt people to make up their minds to buy. In our own country today much domestic hire purchase is controlled by Order as to deposits and periods. Twenty-four months is a statutory maximum in controlled classes of goods, whilst deposits are at least £2, or £5, or alternatively 12½ per cent. of the price of the goods, according to the class of business. First, then, these Orders should be rescinded or at least amended so as to permit pre-war good practice in deposits and periods. Next, we must get propaganda working along the lines of "Buy by hire purchase whilst keeping your War Savings intact." This seems to me to be very necessary for, as mentioned, the temptation to "make a splash" with the funds already saved will be great after four or more years of piling up a £200 to £300 nest-egg.

Let me close by remarking that I am obviously an enthusiast about hire purchase. All of us are who are in the business of conducting or financing such transactions along sound lines with creditworthy folk buying the sort of goods to which hire purchase may be properly applied. Experience has shown us what a major boon hire purchase is, just as experience has demonstrated the almost immeasurable value to the public of the monthly reducing mortgage system of the building society. Nevertheless, I have tried to be as objective as possible, firmly believing that hire purchase has, in any event, an immense and useful future, but that its application to the immediate post-war period in the manner suggested will help to solve a difficult financial problem, will assist industry to change over quickly to peace-time production and, in particular, make for the greater security and happiness of the people.

Latin American Banking in 1943

DURING 1943, the same main economic features were common to all the Latin-American countries. Within the limits imposed by the supply of shipping, there continued steady exports at enhanced prices of strategic raw materials and foodstuffs to the United Nations, and particularly the U.S.A., whereas imports were much restricted, so that the favourable balances of trade ran at record high figures. Internal purchasing power was forced upwards through the enhanced holdings of gold and foreign exchange reserves, and good profits were made on the increased mutual trading between the various Republics, as well as by the expanding national manufacturing industries and commerce generally, so that, with a restricted supply of consumer goods, price inflation inevitably followed. Consequently, there has been a general tendency to adopt anti-inflationary measures, such as the control of profits, prices and wages, increases in taxation, etc. Because of the large surplus amounts of money in the hands of the public, prices of securities and real estate have risen to high levels, whilst competition was naturally keener among the banks. The latters' earnings, however, were supported by the increased internal business turnover and the higher price levels on which commissions, etc., are now chargeable. The banking situation, therefore has remained generally normal, with the credit situation under the supervision of the central banks which exist in most of the countries.

Latest trade returns from Argentina cover the first nine months of 1943 and show that, compared with the like period of 1942, the physical volume of imports fell by 23.8 per cent. and the market value by 29.6 per cent. Whereas the volume of exports was 10.1 per cent. lower, their market value on the other hand actually increased by 11.2 per cent. The balance of trade in 1943 consequently rose to the enormous figure of Pesos 800 millions (say, £50,000,000 sterling). During the twelve months ended August, 1943, total deposits of commercial banks increased from Pesos 5,476 millions to Pesos 6,126 millions, and the note circulation from Pesos 1,492 millions to Pesos 1,704 millions. Holdings of gold and foreign exchange of the central bank at end-September, 1943, totalled Pesos 2,979 millions (85 per cent. of notes and sight liabilities), compared with Pesos 1,769 millions (78 per cent.) twelve months earlier. Thanks to the very favourable balance of international payments, Argentina announced in September the forthcoming repatriation of £25,000,000 out of a total of £39,000,000 of sterling bonded debt in the United Kingdom, using for this purpose Argentine holdings of blocked pounds.

The obscurities of the Argentine political situation puzzle even neighbouring countries, while the failure to break diplomatic relations with the Axis Powers has undoubtedly caused disappointment throughout the United Nations. The present Government is certainly nationalistic in character and is believed to consider that the profits of trade and industry should be limited. However, the recent interruption of the wartime boom on the Buenos Aires Stock Exchange proved only temporary because of the reassuring statement of the new Finance Minister. The new Administration appears anxious to afford increasing protection to local industry and to assist the poorer classes

who, as in most South American countries, are feeling the worst effects of the increase in the cost of living, and the effective measures to arrest monetary inflation can be placed to the Government's credit. Politics and fiscal disequilibrium apart, Argentina is probably more prosperous than any other country in the world today. Shipments of pastoral products—which now outstrip grain—should continue to be supported by the new Meat Agreement with the United Nations. The unwieldy surpluses of grain have disappeared so that large crops are now being fostered instead of discouraged, and, in consequence of increased sowings and ample rains, all crops are expected to give better yields than last year.

Indeed, the crisis in the political sphere does not at present coincide with any other adversities. The volume of imports for September was a record for some months, the shipping situation shows improvement, and all that the country produces is in good demand at present—even the U.S.A. having recently raised new hopes in the cereal market by effecting wheat purchases in Argentina. Britain predominates in Argentine trade on both import and export account, and together with the U.S.A. takes over 50 per cent. of Argentina's exports. The neighbouring republic of Uruguay shares in the prosperity in the pastoral industry, as also in the new Meat Agreement, so that the outlook is encouraging, particularly if, as is thought, the current wool clip, like the last, is sold to the United States at good prices. The political situation is stable and, following the tradition of sound finance, taxation is being increased to meet the Budget deficit, whilst the Government continues its efforts to check rising prices and to curtail public spending power.

In addition to such active military assistance as the provision of air bases and co-operation in the anti-submarine campaign, Brazil is largely contributing to the success of Allied arms by sending a steady stream of strategic materials to North American factories. The consequent record development of her enormous natural resources, coupled with the purchases by the U.S.A. of large quantities of agricultural products under various agreements, is broadening the country's economic basis to an unprecedented extent. The present statistical position of Brazilian coffee offers a good opportunity to restore a sound equilibrium in the world coffee position, whilst prospects are also favourable for the production and sale of varied other agricultural products, including cotton. For security reasons, official foreign trade returns are confined to global figures which show that the favourable trade balance for the first seven months of 1943 was equivalent to £19,760,000, compared with a similar balance of £35,600,000 for the complete year 1942.

Since 1939, the average value per ton of Brazil's exports has increased by 150 per cent., whereas the increase in that of imports is only 45 per cent. Reflecting Brazil's remarkable industrialization, manufactured goods, principally textiles, accounted for 23 per cent. of total export values during the first six months of 1943, compared with 12 per cent. in 1942 and only 3 per cent. in 1941. Britain has continued to buy large quantities of Brazilian cotton, minerals and foodstuffs, in consequence of which Brazil's balance of trade against Britain for the first half of 1943 amounted to over £2,000,000. Brazil's note circulation increased during the first four years of the war by 106 per cent., although the ratio of gold and foreign currency holdings also rose, from 15 to 80 per cent., through the utilization of large dollar balances for the pur-

chase of gold for stabilization purposes. To meet the rise of some 80 per cent. in the cost of living since the war started, the Government has adopted various measures, including the fixing of retail prices and the production of cheap utility goods. It must be remembered, moreover, that the increase in the circulating medium has also been accompanied by an exceptional expansion in the country's productivity, whilst some funds are also absorbed by the compulsory contribution to war bonds.

Brazil's budget is still unbalanced, due partly to the decline in Customs receipts because of lower imports, but collections of revenue, notably income tax, have exhibited remarkable buoyancy, whilst the figures of cheque clearances and sales turnover have continued their upward trend. Land and property values have risen to record levels. Business is generally flourishing. The profits of commercial and trading concerns have been very high, as a result mainly of the demand for commodities exceeding wartime supply. In consequence, the Government has increased temporarily the tax on trading profits and has raised the tax on private incomes in the higher categories. Banking competition is becoming very acute because of the many new institutions established. Thus, in the State of São Paulo alone, between July 1938 and January 1943 the number of banking houses increased from 37 to 81, although the combined capital increased by only about 40 per cent. to 474 million cruzeiros, with reserves of 364 million cruzeiros, whilst deposits in the period rose from 3,684 million cruzeiros to 5,291 millions. Many more banking houses have been established since January, 1943.

Although Chile has suffered particularly from the transport difficulties common to most South American countries, caused by the shortage of imported fuel, business conditions on the whole have been stable, trading profits good and manufacturing industries have continued active. The United States predominates in Chile's trade, and there has been sustained North American demand for nitrate and copper. The agreements with the Metals Reserve Company for the purchase of minerals were renewed on a satisfactory basis, and the entire surplus of wool and frozen meat was disposed of to the U.S.A. and Britain. There is, however, a sense of caution, deriving from the general feeling of uncertainty as to the post-war demand for nitrate and copper. Much will depend upon further development of natural resources, in which connection plans have been drawn up for hydro-electric works and the develop-

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ment of oil deposits. Latest available trade figures show a favourable trade balance for the first seven months of 1943 of 190 million pesos (of 6d. gold), against 159.5 million pesos in the like period of 1942, but this balance is not fully effective because the whole of the proceeds of nitrate and copper exports do not become available to pay for imports. Deposits of the commercial banks increased during the twelve months ended August 1943 from 2,753 million pesos to 3,363 millions. The note circulation expanded during the first four years of the war from 866 million pesos to over 2,000 millions, but has not been accompanied by any increase in domestic production. Aggravated by increased Budget expenditure, price inflation has, therefore, been outstanding, and the national currency is probably over-valued. Inflation has recently slowed down, however, whilst the new Minister of Finance has decided against any further issues of currency, and proposes radically to reduce Budget expenditure.

Whilst general trends in Peru have been the same as in other South American countries, certain unfavourable factors are lacking. Thus, over the first seven months of 1943—latest period available—foreign trade continued at a high level, but, due mainly to higher imports, the trade balance was reduced to 27,000,000 soles, against 98,000,000 in the 1942 period. Obviously, therefore, there is greater equilibrium in the balance of payments than is the case in neighbouring countries, so that Peru has avoided a heavy surplus of foreign exchange and the resulting currency problems. Exchange control in any form has never been adopted, the gold backing for the currency is high and, despite higher fiscal expenditure, the national budget is balanced. General commercial conditions remain favourable because of the high prices obtained for such products as minerals and cotton. The Government has pushed forward with its programme of public works, notably highways, hydro-electrification on the Santa River, and the construction of the new port works at Chimbote. The development of the iron and steel industry in the latter district promises to develop in a manner likely to transform the whole economic basis.

Colombia and the other northern countries of South America, as well as the Central American countries, are experiencing generally favourable conditions, due mainly to the short sea routes to the United States which have assisted the ready disposal of coffee and an increasing number of other products at remunerative prices. These countries therefore possess large dollar balances, augmented by U.S. expenditure on public works and defence.

Although the end of the war may see a temporary lessening of the present demand for South America's strategic products, the war is undoubtedly helping to broaden the Continent's economic basis, through greater diversification and development of natural resources. When the war ends, the demand for South American products may be expected, for some time at least, to switch from strategic materials to the more customary main lines, such as foodstuffs urgently needed to succour an exhausted Europe. In any case, there can be little doubt that the Continent's inexhaustible riches will be widely called upon during the period of world reconstruction.

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Publications Received

The New Economy, by Robert Boothby, M.P. (Secker and Warburg, 6s.) Like so many other people, Mr. Boothby seems to think that a few general ideas picked up from Lord Keynes are sufficient to make an economist. His book is the usual mixture of denunciatory jobbing backwards, coupled with advocacy of the current panaceas. All this would be more impressive if it had been published in anticipation of the *General Theory* instead of seven years afterwards. In pressing for an expansionist credit policy, of course, the author is merely hammering, with much pomp and circumstance, at an open door. Nobody at this stage would deny that the pre-war policies of deflation and restriction were hopelessly mistaken ; but Mr. Boothby chooses to present them in the lurid light of a plot against the community by the Bank of England and the City, whereas the real tragedy is that those responsible sincerely felt themselves to be acting in the best interests of the nation and their action was only possible because that view was supported by experts and public opinion alike. If mistakes were made, the responsibility lies at the door of Governments and those who elected and supported them.

Mr. Boothby, one gathers, knew better all along, but his speeches in Parliament reprinted in an appendix hardly support the claim to be regarded as an economic Solomon. Neither of the two speeches made before September 1931 advocates the abandonment of the gold standard, but only the divorce of the internal from the world price level by a virulent protectionism : the " protection of the home market " and " the development of a sheltered export market within the British Empire "—in other words, precisely the kind of beggar-my-neighbour practices that have been so roundly condemned by President Roosevelt and must be banished from any sane economic system. Since a large part of the unemployment of that time was concentrated in the staple export industries, too, it is not evident that Mr. Boothby's solution would have been particularly far-reaching in its direct effects, even if one leaves out of account the secondary repercussions. It must be conceded that Mr. Boothby has been consistent in his advocacy of credit expansion ; but even the soundest views on monetary policy would be no more than the first tentative approach towards a policy for the abolition of employment. It is obviously no mere coincidence that Mr. Boothby's ten point programme (Ps. 129/130) has nothing to say about the real problems of structural unemployment, the inherent instability of the durable goods industries due to the acceleration principle and the various hindrances (natural and imposed) to the mobility of labour between areas and occupations.

The House of Macmillan, 1843-1943, by Charles Morgan. (Macmillan, 8/6.) Ten decades in the history of a great publishing house provide Mr. Morgan with some fascinating material of which he makes excellent use in this centenary volume. In the early days there is the romance which attaches to all small beginnings from which great things have grown, while the later periods furnish a wealth of correspondence with, or anecdotes concerning, a great many of the outstanding figures in the history of literature and ideas in this country. Especially amusing are the sidelights thrown on the character of the Rev. C. L. Dodgson, whose daily life seems to have possessed more than a slight Alice in Wonderland flavour. Of particular interest to

banking readers, many of the most important works in economic literature, including those of Marshall, Keynes and Pigou, have appeared under the Macmillan imprint. There may, or may not, be a certain irony in the fact Marshall's *Principles* was, of all books, the first to be published under the the net book agreement ; the author, we are told, was " willing, and even eager, that an economic experiment should be made with it."

Prices and Profits, by G. L. Schwartz (Discussion Groups Association). A timely reminder that the price system has a function and that the existing economic system, whatever its shortcomings, has certain achievements to its credit—facts which tend nowadays to be overlooked.

Indian Banking in 1943

By H. C. G. Slater

THE main features of the Indian banking year have been the continued expansion in the note circulation and the more than proportionate increase in wholesale commodity prices. With the progress of the war against Japan and the increasing importance of India as a war base, H.M. Government's expenditure has necessarily increased in that region and large issues of currency in India for immediate payments have resulted, together with an ever-growing accumulation of sterling balances to India's credit in the United Kingdom. While the external effect of this war expenditure on India's economy has been beneficial, enabling her to liquidate her total sterling indebtedness, the effect on the internal structure has not been so happy.

In the absence of the most stringent controls by which the increased currency circulation could be canalized into safe channels, the impact of increased purchasing power in the hands of the masses has caused abnormal rises in wholesale prices of commodities, especially in the groups of food grain and cloth. With a country the size of India, primitive in its economy, with a vast population, mostly illiterate and devoid of social sense, effective control of purchasing power is hardly possible without the widest Governmental action, centrally initiated and regulated. An extraordinary feature of the situation has been the fact that increased prices for primary products have encouraged the peasants to hoard in the hope of getting still better prices for their grain, the sale of only part of their crops being sufficient to provide them temporarily with such cash as they require.

Sterner measures have, however, been recently adopted by the Central Government to curb speculative dealings in both the share and bullion markets, while remedial activities in the sphere of the proper distribution of foodstuffs and the production and distribution of cloth have been intensified. In addition, the authorities have adopted the policy, also followed in some Middle East countries, of selling gold to the public as a hoarding medium, in the hope of mopping up some surplus purchasing power and also tempting speculators to hoard gold instead of consumable commodities. Good results are also expected from the Lottery Loan to be issued in January 1944, which is certain to make a wide appeal to all classes. In its report covering the year to June 1943, the Reserve Bank stresses its view that more stringent physical controls, allied to a greater drive for savings, are needed to deal with the

situation, emphasizing at the same time that a reasonable supply of consumers' goods is vital, even to the efficiency of the war effort, in a country with low standards of living like India.

Indian industrial and business activity shows an upward trend in 1943/44 as compared with 1942/43. This increased internal activity combined with the favourable monthly export surplus of about Rs. 7 to 8 crores is reflected in the rise shown in the figures of the advances and discounts of the scheduled banks. These increased by Rs. 49 crores between June 1942 and August 1943, the total in the latter month being Rs. 148 crores. The percentage of advances to total deposits, however, remained at approximately 27 per cent. During the same period, demand and time liabilities rose from Rs. 357 crores to Rs. 541 crores, the proportion of cash to total deposits falling from 19.93 per cent. to 13.36 per cent.

It is clear that a larger proportion of banking deposits has been diverted to the stock and share markets, and as a consequence prices of gilt-edge and other securities have firmed up considerably. This has permitted a raising of the level of minimum prices of Government stocks which were fixed in September 1942. Between June 1942 and August 1943, the yield on 3½ per cent. Paper dropped steadily from 3.84 per cent. to 3.62 per cent. During 1943 the Central Government has been a frequent borrower and the Provincial Governments of Bombay, Madras, the Central Provinces and the Punjab have also floated loans in the market. The last issue of the Central Government was for an amount of Rs. 25 crores of 3 per cent. Funding Loan 1966/68 issued at 98 per cent. in October, which was quickly subscribed. The four Provincial

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Governments named also offered small amounts of 3 per cent. Loan 1956 at different prices, the credit of the Bombay Government allowing it to obtain its requirements at par while Madras offered ½ per cent discount and the other two fixed the price of their portion at 99 per cent. For the small investor a new form of National Savings Certificate with a term of 12 years now replaces the 10-year Defence Savings Certificates, the sale of which has been stopped. An increase of 50 per cent. in capital value over twelve years is offered with the new certificate, the interest being income tax free, but there is a ban on encashment within three years from the date of issue.

Notwithstanding the low level of interest rates, bankers' profits have been well maintained. Increased banking activity was reflected not only in cheque clearances but also by the flotation of numerous banking companies throughout the year. Any company which uses the word " bank," " banker " or " banking " as part of its name is now deemed to be a banking company, irrespective of whether the business of accepting deposits of money on current account or otherwise is part of its principal business, and the Reserve Bank is understood to have prepared proposals for immediate legislation dealing with the capital structure of banking companies. A noteworthy increase in the number of banking offices of the scheduled banks occurred during the year ended June 1943, the number rising from 1,405 to 1,600. Eighteen of these offices were opened in places with no previous banking facilities.

Other items of interest during the year were the issue in February 1943 of the first two-Rupee notes in Bombay and the increasing shortage of small coin. Notwithstanding all efforts by the Mints, the output of coin is insufficient to meet the demand and it is clear that in spite of the token values of the coins they are being hoarded. The item " rupee coin " in the Reserve Bank's balance sheet, which since July 1940 also includes " notes," continues to show a decline in spite of substantial additions which are made from time to time to the Reserve Bank's stocks by the Government of India under Section 36 of the Reserve Bank Act. The note circulation rose from Rs. 596 crores in November 1942 to Rs. 794 crores in November 1943, while in the same period the sterling securities in the Issue Department of the Reserve Bank increased from Rs. 351 crores to over Rs. 684 crores.

Considerable regret was felt in India at the untimely death in February 1943 of the Governor of the Reserve Bank, Sir James B. Taylor. After some delay the Deputy Governor, Mr. C. D. Deshmukh, C.I.E., was appointed Governor. In his speech to the shareholders at the ninth annual general meeting of the Bank in August 1943, Mr. Deshmukh dealt *inter alia* with the problems represented by the re-transferring to India of the very large sterling balances she now holds. Pointing out that after the liquidation of outstanding sterling obligations a substantial accumulation will remain, he stated that the rural areas will require a large capital investment in the form of extension of the means of communication, electric power for rural industries, water supply and irrigation while, in addition to the needs of normal industrial expansion, heavy replacements, to counter depreciation of machinery and plant would be needed by the railways and existing industries. He revealed that negotiations have been in progress with this country regarding the eventual liquidation of India's sterling, but stated that the nature of the proposals cannot yet be revealed.

SECURITIES IN BATTLEDRESS

The following review of the Defence (Finance) Regulations as affecting Stock Exchange securities was originally prepared by two officials of the London office of the Clydesdale Bank for the guidance of that bank's branch offices. In view of the great interest in this subject in banking circles as a whole, THE BANKER *is glad to have been given the opportunity of reproducing it for the benefit of a wider public.*

THE process of mobilizing the nation's reserves of foreign securities has confronted the banks with a mass of detail contained in the varied and numerous statutory orders issued under the Defence (Finance) Regulations. It has resulted, also, in far-reaching changes in the method of dealing with such securities, and in these days of stress it is not easy to recall the guidance contained in official publications issued so long ago as the first year of the war. In addition, wartime economy has given rise to a variety of expedients which have placed in the hands of the banks numerous instruments and documents on which it is sometimes difficult to obtain guidance except by direct contact with the Bank of England.

The notes which follow are in no sense intended to replace the various orders and circulars already issued on these subjects. They seek rather to discuss the meaning and effect of the Regulations in so far as they affect securities, to pass on the benefit of information acquired by daily contact with the Control, and to furnish the branches with a ready reference on the procedure to be adopted as between them and London Office. They must, of necessity, contain a great deal which will appear elementary to many, but if to some they are of academic interest and to others of practical value, they will have served their purpose.

The Regulations in operation

However unprepared for war this country proved to be in 1939, there was one direction in which it had benefited from the trials and errors of the last European war. On August 25, 1939, a week or so before the outbreak of hostilities, the Defence (Finance) Regulations were announced by the Treasury, and these have operated ever since, basically unaltered even if the vicissitudes of war have rendered some amendments necessary from time to time.

The first order issued under these Regulations required residents of the United Kingdom to register with the Bank of England those securities in respect of which the principal, interest and dividends were payable in certain specified currencies. These comprised most of the leading countries of the world, but subsequent events have proved that the currencies in which the Treasury has evinced most interest are those of U.S.A., Canada and the Argentine.

The war was only a few months old when the Treasury showed its hand by announcing the compulsory acquisition of all holdings of Dominion of Canada $3\frac{1}{2}$ per cent. Stock 1930/50 owned by residents in the United Kingdom. Here was something of an innovation in the financing of a war by this country,

although possibly the most pressing reason for the step was the utilization of the large sterling balances accumulated in London at that stage by the Canadian Government. This proved to be the forerunner of many similar orders, as a result of which the sterling debts of the Canadian, South African and Indian Governments have been largely eliminated.

On February 19, 1940, the Treasury issued the first of a series of vesting orders covering, in the main, American securities which the authorities had decided to acquire at the sterling equivalent of the market price ruling at the close of business on the previous day in New York. The proceeds of these securities were required to supply this country's pressing need for dollars before the advent of Lend-Lease. It is estimated that the total dollar marketable securities in the possession of British nationals before the war amounted to $950 millions, of which over $600 millions have been realized to provide the sinews of war.

Perhaps the boldest of the many courageous steps taken by the Treasury in this war came in the dark days of 1940. France had capitulated, the Low Countries were over-run, and, as is now well known, we in this island had little with which to defend our lives, let alone our securities. On June 17, 1940, the Treasury banned dealings in all restricted securities (i.e. securities registered under the Defence (Finance) Regulations). At the same time, secret instructions were issued to all banks. Security departments worked at high pressure preparing long lists of securities specified by the Treasury. Strong wooden boxes were delivered by the authorities. The securities were packed into them, and in an incredibly short space of time practically all the restricted securities held by the banks in the United Kingdom were on the high seas bound for Canada. Thanks to the Royal Navy, they were safely delivered (one hesitates to contemplate the consequences had it not been so) and lodged in what is now known as the United Kingdom Security Deposit in Montreal. Within one month, on July 18, 1940, dealings in restricted securities held abroad were resumed provided the sale was made to a non-resident, and before the close of the year dealings between residents in this country were permitted in many of the securities held at the U.K.S.D. For obvious reasons, it was not possible to acquaint the public with the circumstances giving rise to the ban on dealings, and consequently there was some criticism and dissatisfaction expressed at the " high-handed " attitude of the authorities in imposing the ban. Viewing the matter in retrospect, however, even the most ardent critic of that time must agree that the conception of the scheme and the facility with which it was put into effect reflect the greatest credit on the responsible officials at the Bank of England and the British Treasury.

By the middle of 1941, the policy of Lend-Lease between America and this country was in full operation, but large commitments to the United States were still outstanding in respect of goods supplied previously. To meet this situation, the Reconstruction Finance Corporation of America agreed to make a loan to the British Government of $425 millions, secured by collateral valued at $500 millions. In order to provide the major portion of this collateral, an order was made on August 5, 1941, under which the Treasury required a batch of dollar securities to be placed at their disposal, including such well-known issues as Celanese Corporation of America and Standard Oil Company of New Jersey. This order differed from its predecessors, in that it did not

call for the securities to be sold outright, but merely required them to be placed at the disposal of the Treasury. In the absence of an order to the contrary, holders will again acquire control over their stocks when the purpose of the present arrangement has been served, and in the meantime they receive the sterling equivalent of dividends as they fall due. Thus there was created another category of dollar securities, giving rise to yet a further variation in procedure.

From the foregoing, it will be seen that the application of the Defence (Finance) Regulations, in so far as they affect securities, has resulted (1) in the registration with the Bank of England of many of our foreign securities, and the restriction of dealings in them ; (2) in the acquisition by the Treasury of a large proportion of our Dominion and Indian sterling stocks ; (3) in requiring the bulk of our dollar securities to be surrendered to the Treasury against payment in sterling ; and (4) in dividing what remains into the following categories, namely :

(1) Restricted securities held in this country ;
(2) ,, ,, ,, in banks abroad ;
(3) ,, ,, ,, at the U.K.S.D. ;
(4) ,, ,, ,, as collateral for the R.F.C. loan.

Those securities which have been requisitioned present no further problems, save perhaps the need to soothe a previous holder having the misfortune to possess a long memory. But it may be profitable to examine in closer detail the questions arising from the daily handling of the restricted securities which are still on our books, even if they are not in our physical possession, and to this end the notes which follow are devoted.

Registration of Securities with Bank of England

The registration of securities with the Bank of England under the Defence (Finance) Regulations is effected by means of Form S.1, which is familiar to all branches. The form is in two parts. The first, Part A, is retained by the Bank of England. The second, Part B, is returned to the owner for attachment to the security, and is thereafter referred to as " Form S.1 (B)." Every security subject to registration should have a Form S.1 (B) (white in colour) attached to it, unless there has been a change of ownership since the original registration was effected, when a Form S.2 (pink in colour) will be attached. In the event of a sale, the second section of the S.1 (B) form (or S.2 form) is completed with the name of the new owner, and Form S.2 in duplicate is made out with full particulars of the security and the new owner. These are lodged with the Bank of England, who return one copy of the S.2 form for attachment to the security. If the sale is a partial one only, the same procedure is adopted, but in addition the part of the security remaining to the original owner will be recorded on Form S.2. Should there be a change in the security, as, for example, by a scheme of capital reorganization, or the absorption of one company by another, the alteration would be recorded by means of the S.2 form or, where necessary, by fresh registration on a new S.1 form. A change of ownership through reasons other than a sale (for example, by inheritance) would be dealt with similarly.

Even today, there are still a number of securities subject to registration which have not yet been registered with the Bank of England. When such

cases come to light, the Form S.1 must be forwarded to London Office for registration, accompanied by a letter furnishing the following information:

(1) Have the securities been in the continuous beneficial ownership of the customer since August 26, 1939?

(2) Is he a resident British subject?

(3) Does he own any other registerable securities which have not been registered, and has he any currency balances or gold holdings which he has not yet surrendered to the Treasury?

(4) Reason for the delay in registration.

Acquisition of Dominion and Indian Sterling Securities

It will be of interest to study the method adopted to make Dominion and Indian sterling securities available to the Treasury, since these acquisitions are not necessarily at an end. A notice is sent to all registered holders in this country, intimating the acquisition of the stock at the market price on the date of the order. Enclosed with the notice is a transfer deed in favour of the Treasury nominees. The transfer should be completed, signed by the stock-holder, and forwarded to London Office with the relative certificate if the stock is in registered form. If the stock is in inscribed form, the transfer will require to be certified by the registrars, but this will be attended to by London Office. When the stock is surrendered not later than the date specified by the Bank of England, payment will be made about three weeks later. Surrender of the stock by the specified date is accepted by the Bank of England as registration under the Defence (Finance) Regulations, but if for some reason surrender is delayed, the stock must first be registered with the Bank of England on the Form S.1, which is familiar to all branches. Payment for stocks lodged subsequent to the specified date is effected about three weeks after lodgment of the completed transfer with the Bank of England.

All dividends on the stock payable after the date of the acquisition order are the property of the Treasury. Where there has been delay in surrendering the stock and dividends have been received by the stock-holder, the Bank of England will deduct the gross amount of the dividends from the proceeds. As the stockholder has received the dividends less tax, the counterfoils should be forwarded to London Office, who will reclaim the tax from the Treasury.

Naturally, the notices regarding the acquisition of the stock are sent to all stock-holders who appear from the stock registers to be resident in this country. These addresses (for example, care of a bank) may conceal the fact that the stock-holder is actually resident abroad, and if the duration of his absence from this country justifies it, he may be deemed by the Bank of England to be resident abroad and, as such, exempt from the provisions of the Defence (Finance) Regulations. It is open, however, for such stock-holders to surrender the stock voluntarily, and there have been many cases of people doing so to further the war effort of this country.

From the foregoing, it will be seen that what, in effect, happens is that the Treasury purchases the stock at the market price ruling at the time, and thereafter surrenders it to the Dominion Government concerned against payment, thus enabling the Dominions to utilize the large balances of sterling which most of them, as a result of the war, have accumulated in this country.

Acquisition of Dollar Securities

The bulk of the dollar securities already requisitioned were either in bearer form or of the type known as " hand-to-hand " securities. Consequently, the Treasury could not adopt the method of sending a notice to the registered holders, as was done in the case of Dominion and Indian stocks. Reliance had to be placed on advertisement in the Press, and full publicity was given to the lists. This procedure naturally resulted in a much greater delay in making the stocks available to the Treasury, although, fortunately, a very large proportion of the securities affected were in the hands of the banks and were, therefore, dealt with expeditiously. Many of the stocks, however, were held to the order of the beneficial owners in banks abroad, whilst a certain number which were registered in the names of the owners themselves reposed undisturbed either in their homes or in deed boxes held by solicitors or banks.

While it is true that a large proportion of the remaining dollar securities are held to the order of the branches by either Head Office or London, there are still a certain number in the hands of the branches, and if the occasion should arise to remit the certificates for surrender to the Treasury, the following points should be noted :

(1) Where there is a printed form of transfer on the back of the certificate, this should be signed by the registered holder, his signature corresponding exactly with the version of his name appearing on the front of the certificate. If it is not possible to obtain the signature of the holder to the certificate at the time, a stock or bond power of attorney should be obtained and forwarded later for attachment to the certificate. This form is a replica of the transfer appearing on the back of American certificates, and if attached to the certificate will be accepted by the company. Stock powers or bond powers can be obtained at a Stock Exchange or any good legal stationer, but if any difficulty is experienced in obtaining a supply the Branches may apply to London Office.

(2) The space for the date should be left blank, and the name of the transferee also omitted.

(3) The signature on the certificate, stock or bond power, must be witnessed and confirmed by a bank. The latter confirmation is not required where the certificates are in good market names. (See below.)

(4) If the certificates are in the name of limited companies, corporations, societies or institutions, they must be endorsed by the shareholder with a signed guarantee that all the necessary papers have been filed with the registrar and/or transfer agent to ensure transfer.

(5) In the case of deceased holders, the Treasury requires a certificate in duplicate stating—

(*a*) that documents have been lodged with the company confirming the appointment of executors/trustees ;

(*b*) that the executors/trustees are still living ;

(*c*) that there is nothing in the will (or trust disposition in settlement, in Scotland) precluding the executors/trustees from making a valid sale or transfer of the security ;

(*d*) that there is no impediment existing which precludes the executors/trustees from still signing as such ;

(*e*) that the documents supporting the appointment of executors/trustees will be forthcoming to the transfer agent if necessary.

United Kingdom Security Deposit

This institution was formed to receive and hold the securities which in the national emergency of 1940 were shipped to Canada, and is staffed by representatives from the Bank of England and Canadian personnel. Unfortunately, it is not possible for us to detail which securities are at the Deposit, but it should be noted that *all* securities registerable under the Defence (Finance) Regulations were *not* sent to the Deposit. Those which were remitted included all the popular "counters" amongst American and Canadian hand-to-hand securities, and bonds payable in American and Canadian dollars (or having options for payment in these currencies) provided they were in the custody of banks at the time the order was made. If branches had securities falling in these categories held to their order by either Head Office or London Office in June 1940, or if they sent them there in response to Head Office circular at that time they can assume that they are now held at the Deposit. All these securities are held to the order of the bank, but are earmarked at the Deposit for account of Head Office or London Office with, in addition, the names of the customers concerned.

For the collection of dividends, the normal procedure (see below) is followed for hand-to-hand securities, claims being lodged with the registered holders, but in the case of coupons from bearer scrip some variation from the normal is obviously necessary. The Deposit does not undertake the collection of coupons, but will detach them when instructed. A standing instruction is given to the Deposit by Head Office and London Office to detach coupons from bonds when the interest is paid regularly, but special instructions are required when payment is by advertisement or occurs at irregular intervals. The Deposit forward coupons payable in Canadian currency to the Bank's Canadian correspondents, who have our instructions to collect the proceeds and remit to us. Coupons payable in U.S.A. currency are, of course, sent to New York for collection by the Bank's correspondents there. So far as the branches are concerned, the normal peacetime procedure should be followed, and coupon slips and ownership certificates forwarded as usual to either Head Office or London, whichever Office holds the bonds to the order of the branch. Owing to wartime delays in the mails, these forms should be forwarded fully two months in advance of the due date, as the ownership certificates require to be remitted to Canada.

If sale of a security lodged with the Deposit is under consideration, it must first be ascertained, by reference to a broker or to London Office, into which of the two following categories the security falls:

(1) The large and growing number of securities in which dealings in this country between residents are permitted—that is, they may be sold by one resident to another.

(2) The remaining securities, on which there is still a ban on dealings between residents in this country, although it is possible to sell to a non-resident.

Although, normally, it will not fall to the lot of a branch to carry through

the formalities attached to a sale (or purchase) it seems desirable that they should be conversant with the procedure and thus be in a position to furnish the particulars required by the broker or Head Office or London Office. In the case of a sale to a resident, Form S.1 (B) (or, if a change of ownership has taken place since the original registration, the form required would be S.2) should be handed to the broker. Once the name of the new owner of the shares has been ascertained, the second section of the S.1 (B) or S.2 form is completed, together with a fresh S.2 form. These are handed to the custodian office (Head Office or London Office) who issue a delivery order on the United Kingdom Security Deposit, requesting the issue of a security deposit receipt. All these documents are lodged at the Bank of England by either London Office or the broker. As it will be some time (in these days, about three months) before the security deposit receipt will be issued by the Bank of England, since confirmation must first be received from Montreal that the transfer has been carried through, a temporary document known as a call receipt or call ticket is issued, which is exchangeable in due course for a security deposit receipt. The call ticket is accepted by the Stock Exchange as the document of title, should it be desired to sell the shares before the issue of the security deposit receipt. The particulars of the underlying security are recorded on the call ticket, so that in the case of hand-to-hand securities it is possible to claim the dividend from the registered holder if one should be declared.

If the security to be sold is one of those in which dealings between residents are banned, then application must first be made to the Bank of England for permission to sell. This may be arranged by the broker, but the branch may ask London Office to lodge an application, and if the S.1 (B) or S.2 form is not already in their possession it should be sent then, with a note of the full name and address of the beneficial owner. Should the branch wish London Office to arrange a sale, they should specify whether it is to be done by cable, mail or air mail. When the sale has been effected, London Office issue a delivery order requesting the deposit to deliver the security to the broker in New York or Montreal or wherever the sale has been carried through.

Delivery orders issued by the bank on the Deposit need not necessarily follow as a result of sales only. A customer may transfer his account to another bank, or he may die and his shares be divided amongst the beneficiaries. In such cases, the Deposit is requested to transfer the security to the order of the customer's new bankers, or in the case of a death to the order of the bankers of the beneficiaries. Where the latter are residents of the United Kingdom, the Deposit hold securities to the order of banks only and not for firms or individuals.* It is sometimes, also, necessary to obtain the release of securities from the Deposit for the registration of the death of a shareholder, or for the transfer of shares into a good marking name. Delivery orders in favour of the bank's correspondents are issued in such cases, and the correspondent is instructed to hand the new certificates when available to the Deposit.

Reconstruction Finance Corporation

Although in July 1941 the Lend-Lease Act was already functioning, His Majesty's Treasury found themselves liable for a number of large contracts

* The only exception to this rule is the Share and Loan Department of the London Stock Exchange.

which had been given prior to the passing of the Act. To enable them to meet the payment for these contracts, the Reconstruction Finance Corporation agreed to grant a loan to the Treasury of $425 millions against security. The U.S.A. Securities (Placing at Treasury Disposal) Order, 1941, was passed on August 5, 1941, and holders of twenty-three different stocks were required to place these at the disposal of the Treasury. It should be borne in mind that these stocks were not requisitioned. The beneficial owner still retains his interest in them. The stocks were handed over to the Bank of England, and they were thereafter transferred into the names of the nominees of the Reconstruction Finance Corporation, who account for the dividends on the stocks to the Bank of England. In exchange for his stock, the beneficial owner is granted a treasury formal receipt, which gives him a provisional right to the release of the stock at some future time (presumably when the loan is repaid by the Treasury). Although it was possible to have the formal receipt in his own name, in almost all cases the receipts were made out in the name of the banks or their nominee companies, to avoid the complications following the death of a beneficial owner. The sterling equivalent of the dividends less income tax is paid by the Bank of England to the registered holder of the receipt. If the receipt is in the beneficial owner's own name, he can mandate the dividends in favour of his Bank. Branches should note to amend their security records, as a holding of, say, 100 Celanese Corporation of America Common Shares is no longer represented by the certificates originally detailed, but by a Treasury formal receipt, and when the time comes to release the shares they will be registered in accordance with the owner's requirements, no doubt in a good marking name. The S.1 (B) form should also be amended in the space allotted to the description of the shares, and thereafter sent to London Office for approval by the Bank of England.

Although his shares are pledged in the manner set out above, the beneficial owner is not debarred from disposing of his right to the return of the shares. Until further notice, the Treasury are prepared to acquire outright any of the following fifteen of the original twenty-three securities affected :

Celanese Corporation of America 7 per cent. Cumulative Prior Preferred Stock, Shares of $100.

Celanese Corporation of America 7 per cent. Cumulative First Participating Preferred Stock, Shares of $100.

Celanese Corporation of America Common Stock, Shares of no par value.

Chicago Pneumatic Tool Company $3 Cumulative Convertible Preferred Stock, Shares of no par value.

Cities Service Company 5 per cent. Convertible Gold Debentures 1950.

Climax Molybdenum Company Common Stock, Shares of no par value.

Congoleum-Nairn Incorporated Common Stock, Shares of no par vaue.

Dividend Shares Inc. Capital Stock, Shares of 25 cents.

Great Northern Iron Ore Properties Trustees Certificates of Beneficial Interest.

International Paper and Power Company (now International Paper Company) 5 per cent. Cumulative Convertible Preferred Stock, Shares of $100.

John Morrell and Company (Maine) Capital Stock, Shares of no par value.

Pure Oil Company 5 per cent. Cumulative Convertible Preferred Stock,

Shares of $100.
Singer Manufacturing Company Capital Stock, Shares of $100.
Standard Oil Company (New Jersey) Capital Stock, Shares of $25.
United States and International Securities Corporation $5 Cumulative First Peferred Stock, Shares of no par value (with warrants).

The price to be paid for such acquisition will be the sterling equivalent at the official rate of exchange of the price which in the opinion of H.M. Treasury was the closing market price on the last business day in New York prior to the date of the application to the Bank of England. If a branch customer wishes to avail himself of the offer, the Treasury formal receipt should be sent to London Office, together with the relative S.1 (B) form. The price of the day is exhibited at the Bank of England on each business day except Monday and Saturday. Although the customer may stipulate a price below which he is not prepared to sell, London Office naturally cannot undertake to attend daily at the Bank of England until such time as the price adjusts itself to the customer's fancy. If it is not possible to deal on the day the order is received, London Office will advise the branch of the current price and await further instructions. When a sale is effected, a special form of transfer is signed by the registered holder, and payment is made after three clear business days from the date of lodgment.

The following six securities are in a separate category:

The American Thread Company Inc. 5 per cent. Cumulative Preferred Stock, Shares of $5.
W. R. Grace and Company 8 per cent. Cumulative Class "A" Preferred Stock, Shares of $100.
W. R. Grace and Company 8 per cent. Non-Cumulative Class "B" Preferred Stock, Shares of $100.
W. R. Grace and Company 6 per cent. Cumulative Preferred Stock, Shares of $100.
W. R. Grace and Company Common Stock, Shares of no par value.
Virginian Corporation 5 per cent. Collateral Trust Serial Notes Series "M" 1952.

For the disposal of the above shares, permission to sell abroad has to be obtained, and this cannot be granted by the Bank of England until the consent of the Reconstruction Finance Corporation is obtained. Thereafter, the New York broker, acting on our instructions, ascertains the requirements of the Reconstruction Finance Corporation before selling the shares in the market. As in the previous cases, the Treasury formal receipt and S.1 (B) form should be sent to London Office, who will carry through the negotiations.

The two remaining stocks are the 5 per cent. "B" income debentures and the capital stock of American Association Incorporated, for which the rights can be sold on the London Stock Exchange, as dealings between residents are permitted by the Bank of England subject to the approval of the S.2 form. The common form of transfer slightly amended is accepted, and is subject to stamp duty. This type of transaction should also be done through the agency of London Office.

"Hand-to-Hand" Securities

As is well known, share certificates issued by the majority of American companies, and by many Canadian companies, are in hand-to-hand form.

Each certificate has printed on the back a form of transfer, so that if it is signed by the shareholder the certificate can pass from hand to hand, transfer of the shares being effected by delivery in the same manner as a bearer security. This continues until the name of a transferee is inserted in the certificate, when, of course, it must be lodged for registration with the company in America or Canada, which involves the payment of transfer fees and taxes as well as insurance. Buyers of these shares prefer, as a rule, to leave them in the names in which they are registered, but it is obvious that any dividend declared on the shares will be remitted by the company to the registered holder. It is, therefore, necessary for the beneficial owner to claim the dividend from the registered holder.

The great bulk of American and Canadian share certificates circulating in this country are registered in the names of stockbrokers, bank nominee companies, and certain other houses who specialise in this type of business and are prepared to deal with dividend claims in return for a small fee. These have now received official recognition by the Stock Exchange, who have issued a list of approved marking names. Before being admitted to the list, the registered holder must comply with certain requirements of the Stock Exchange, including an undertaking to pass on dividends to legitimate claimants. Their position has been greatly strengthened by a recent decision of the Stock Exchange Committee to quote two prices for this type of security, a more favourable one for shares registered in approved marking names, and a poorer price for shares in other names. The difference approximates to the cost involved in having the shares transferred to a name appearing on the Stock Exchange list, usually referred to as a " good " name. All certificates registered in names which do not appear on that list are deemed to be in " bad " names.

As will be realized, many serious disadvantages are attached to shares in bad names. It is often difficult to trace the registered holder, as the certificate does not give his address, and when eventually traced he is sometimes reluctant to pass on dividends and will probably insist on the shares being taken out of his name as quickly as possible. He can hardly be blamed, as otherwise he may be faced with claims from different parts of the country, possibly over a period of years. If the registered holder should die, another complication arises, as once his death is known to the company they will not pass any transfer of the shares until the requirements of the American revenue authorities have been complied with.

It will be well, then, to have the following points in mind in dealing with hand-to-hand securities :

(1) Ascertain if the certificates are in good or bad names, by reference to the list issued by the Stock Exchange Committee. Should this not be available at the branch, London Office will furnish the information on application.

If the certificates are in name of a client who wishes them transferred into a good market name, they should be endorsed by the registered holder and forwarded to London Office (registered and insured) with the necessary instructions.

In normal times, it is advisable that all American and Canadian hand-to-hand securities in good market names be held by London Office to the order of the branches. The dividend position is then

taken care of, and the beneficial owner is saved the expense of insurance and postage in sending the certificates to and from London each time a dividend is paid.

(2) It is important to note what constitutes a valid endorsement. Certificates in good market names are usually endorsed correctly, and the endorsement does not require to be guaranteed, but in the case of certificates in bad names the endorsement must be witnessed and thereafter guaranteed by a bank or stockbroker. Care must be taken to see that the endorsement agrees in every detail with the name inserted on the face of the certificate. In the case of a woman, the word "Mrs." or "Miss" is often omitted in the endorsement, and delay and expense is incurred in rectifying the matter. Example:

Certificate in name of
Miss Mary W. A. Smith as Executrix for
William Smith, deceased,
should be endorsed as follows:

Witness: Miss Mary W. A. Smith
as Executrix for William Smith, deceased.
_____ Signature confirmed.
(name and address) For The Clydesdale Bank Limited.
.....Agent.

It should be noted that the term "Signature confirmed" is the correct form, and not "Endorsement guaranteed," which is not recognised by American companies.

(3) On a sale, certificates registered in good market names receive a slightly better price than those registered in bad names. The reason for this is that a buyer of shares in a bad name is put to the expense of having the certificates transferred to another name. This means insurance and postage charges to and from the United States or Canada, as well as transfer taxes and agent's handling fee.

(4) The Stock Exchange Committee have fixed the following *minimum* rates to be paid by all good market names in respect of dividends:

U.S.A. .. 4/9½ per $
Canada .. 4/4 per $

The fixed rate at which the Control will purchase U.S. dollar dividend warrants is 4.03¾, and from the sterling equivalent dealer's commission at 2/6 per cent. is deducted. Thus the seller receives approximately 4/10½ per dollar. In the following example, let us assume your customer, A, is entitled to a dividend of $10 on shares standing in a good market name, B:

$10 @ 4/9½	=	£2	7	11	= Amount paid by B to A
$10 @ 4.03¾	=	£2	9	6	
Dealer's Commission, ⅛%, minimum 1/-	=		1	0	
		£2	8	6	= Amount received by B on selling the dollars.

It will be observed from these rates that the Stock Exchange Com-

mittee permit good market names to retain approximately 1d. per dollar from the rate, to compensate them for the amount of work involved in allocating the dividends to the various claimants.

It should be noted that in cases where shares are registered in the name of the Bank's client (not being a good name) he can, on receipt of his dividend warrant, sell the dollars to the Control at the official rate, thus avoiding the charge exacted by the good market name. This advantage, however, appears to be outweighed by the many benefits attached to shares registered in good names.

Marking for Dividend

To some branches and to most customers, the claiming of dividends on American and Canadian hand-to-hand securities has always been a subject of some mystery. It is possible, of course, for this type of security to be registered in the name of the customer himself, in which case he receives the dividend warrant direct from the company in exactly the same way as he would receive a dividend on a British security. As with his other securities, he may elect to lodge a mandate with the company for the payment of the dividend to his bankers.

But, as explained, most of the registered holders are composed of stock-broking firms, bank nominee Companies, and others specializing in this type of business, and now officially recognized by the Stock Exchange as approved marking names. The majority of them are domiciled in London, but those in the provinces make arrangements for their London correspondents to deal with dividend claims. As a rule, buyers of shares in hand-to-hand form prefer to leave them in an approved name. Any dividend declared on the shares is, of course, remitted by the company to the registered holder, and it therefore becomes necessary for the beneficial owner to claim the dividend from him.

In peacetime, the certificates were sent to London Office, who listed them on the appropriate form and presented them at the office of the registered holder, who marked them with a stamp bearing his name and a statement such as "Dividend January 1944 claimed." Payment was made as soon as the dividend was in the hands of the registered holder. Branches may have been puzzled on occasion by the varying dates on which they received payment of a dividend on a block of shares registered in different names. Some of the very large holders arrange for their dividends to be remitted to them by cable, thus enabling them to settle more quickly than those who rely on the ordinary mail. Again, some brokers are located in the provinces, and the dividends have to be collected from them. It is obvious, too, that the broker will want to ensure that the amount of the claims lodged with him does not exceed the amount received by him from the company, and he must be given time to reconcile his figures. If the difference is serious, he may require to obtain a list from the company of the certificates outstanding in his name at the date of the dividend. He himself cannot tell this, for he has no control over the certificates in his name which are circulating. At any time the owner of the certificate may choose to transfer the shares into another name, without the original registered holder knowing. Indeed, all the shares in his name could be so transferred without his knowledge, the non-arrival of the dividend and the absence of claims being his first intimation of the fact.

The outbreak of hostilities forced upon us a change in the method of claiming dividends, which was fully justified by the course of the war. It was realised that, in the event of heavy air raids on London, the practice of carrying securities round the streets from office to office involved an unnecessary risk to human life, quite apart from the possibility of the loss of securities, which were, to all intents and purposes, in bearer form. It was arranged that registered holders would accept claims on a form giving full particulars of the security, signed by the claimant, who undertook to mark the relative certificates and to indemnify the registered holder from any loss he might incur if the claim should prove to be spurious. This system has worked very well since its inauguration, and it required no alteration whatever when so many of the securities in question were shipped to the U.K.S.D. in the summer of 1940. Branches which still have securities of this type in their custody should note that, so long as the present system obtains, it is not necessary to send the actual certificates to London for marking. A blue coupon slip should be sent as usual, with, in addition, the particulars of the certificates (numbers and names of registered holders) and the dividend which it is desired to claim. Immediately the branch is advised that the claim has been accepted, the certificate should be marked that the dividend has been claimed. This is of paramount importance. Security deposit receipts should also be marked in the same way, but not call tickets, which must now be sent to London Office for endorsement by the Bank of England.

Minimum Prices and "Tap" Borrowing

It will be recalled that the system of minimum prices for gilt-edged and other trustee stocks was used in September 1938, as a temporary measure to cope with the crisis. It was introduced again on the eve of the outbreak of hostilities. During the early weeks of the war, dealings were difficult and prices were firmly bedded down on the minimum levels, but with the reduction in the Bank rate to 3 per cent. at the end of September, markets began to thaw. The restoration of the Bank rate in October to its pre-war level of 2 per cent. resulted in prices quickly floating away from the official minima. Growing confidence and the skilful market policy followed by the Treasury made it possible to raise the " peg " in March 1940, and ever since the bulk of gilt-edged stocks have stood well above the minimum prices. So long, therefore, as the present Treasury policy is pursued, the system is likely to operate only as a safeguard against the fluctuations of fortune which are inevitable in wartime.

But for reasons associated with the technique of " tap " borrowing, the system of minimum prices requires to be borne in mind, when an application for 2½ per cent. National War Bonds or 3 per cent. Savings Bonds is under consideration ; and as there have been numerous cases of subscribers to these stocks finding themselves in a somewhat embarrassing position, it may be well to study present-day arrangements. For it is one thing to act with magnanimity during a " Wings for Victory Week," and quite another to get rid of the stock in the week that follows. It has to be remembered, too, that in this war the banks are not expected to provide more than very temporary accommodation in support of subscriptions to Government issues.

The loans at present available on " tap " are :

2½% National War Bonds 1952/54	..	Interest payable 1st March, 1st September;
3% Savings Bonds 1960/70 (Series C)	..	„ „ 1st March, 1st September.

In both cases, the minimum price is fixed at 100; that is to say, a holder is not permitted to dispose of the bonds below par on the Stock Exchange. It will be obvious that so long as the stock can be acquired at par by application to the Bank of England, an investor will not incur the additional cost of brokerage and contract stamp which would arise in purchasing it from an existing holder. Consequently, there is no market in the stock of any series so long as that series remains on "tap."

At what stage, then, do dealings become possible? Let us examine first the case of National War Bonds, the present issue of which commenced on September 1, 1943. When the stock is applied for at the Bank of England, interest commences to run from the date of the application, and is paid at the first interest date following. For this reason, holdings vary as to the amount of interest due next March, and the stock is therefore quoted *ex* the March payment. The seller is liable to the purchaser for the gross interest from the day on which the bargain is done to March 1 next, recouping himself out of the payment received then from the Bank of England. It will be seen that in respect of interest a purchaser in the market would be in the same position as an applicant for new stock, but he would be subject to brokerage and contract stamp, and as the price cannot fall below par to allow for this the stock is and will remain frozen until at the earliest March 1, 1944. Bonds issued on and after that date will be earmarked "Series A," with the first interest payment on September 1, 1944. The present series will then be quoted with the accrued interest included in the price; and as the interest accumulates, stock which is available in the market to a purchaser at 100 will gradually become attractive. Thus the market will slowly "thaw out," the process probably taking three to four months, as it must be remembered that sellers usually predominate at first.

It will be seen, therefore, that National War Bonds applied for through the "tap" are unsaleable until some three or four months after the first interest date following the application, except, of course, in the event of the issue being replaced by a loan less favourable to the public. The position is similar in the case of the present issue of 3 per cent. Savings Bonds 1960/70. These bonds were first offered on May 1, 1942, and those at present available on "tap" are therefore in Series C. The bonds of the earlier series are quoted with interest accrued included in the price; and as the minimum price is still 100, they require to carry two or three months' interest before they become attractive to a purchaser. The last interest date was September 1, and a few weeks ago the stock was not readily saleable, although the half-yearly thaw was in process.

Bearer Securities

The handling and recording of securities in bearer form presents little difficulty to the branches. Generally speaking, these securities are either bearer bonds with interest coupons attached, payable on certain fixed dates

shown on the coupons, or share warrants to bearer with dividend coupons attached, payable on dates indicated by advertisement in the press. An additional variety is the bond registered as to principal, although having interest coupons attached which are payable to bearer. Amongst British Government loans, the best-known example of this is the 4 per cent. Victory Bond issue, which, although available in bearer form, can be registered as to principal if desired. Another illustration familiar to most branches is provided by the interest warrants issued by the Clyde Navigation Trust and the various Corporations. These are payable to bearer, although attached to mortgage bonds which are registered as to principal.

The imminent threat of invasion in May 1940, and the oft-demonstrated predatory methods of the Nazis, emphasised the grave risk attached to holding securities in bearer form. An Order in Council was passed, prohibiting the issue of bearer securities in all cases where it is possible to issue these securities in the form of stock. At the same time, holders were recommended to transfer their bearer scrip to registered form, where the alternative was available. As an additional inducement, the Crown Agents for the Colonies, the Bank of England and the leading banks have agreed until further notice to waive the fees exigible for this form of transfer, and many companies have reduced temporarily the fees previously charged. As a result of this, British Government securities in bearer form have almost entirely disappeared, whilst there has been a tremendous reduction in share warrants to bearer of such well-known holdings as British-American Tobacco Company and " Shell " Transport and Trading Company and many of the mining companies who issued shares in this form. In the case of 4 per cent. Victory Bonds and other Government issues not available in the form of stock, it is now possible to register as to interest, as well as principal. When this is required, the bonds are lodged with the Bank of England, who detach the coupon sheets, and return the bonds endorsed to the effect that in future interest will be paid by warrant to the registered holder.

Another precaution was adopted in 1940, when it was decreed that if securities in bearer form are transferred to a new owner the scrip must have a Form B attached. This form embodies a description of the security to which it relates, with the names and addresses of the transferor and of the transferee, supported by declarations that there is no enemy taint attached to either party. These declarations must be signed by a bank, stockbroker, solicitor, or by the Public Trustee.

Inscribed Stocks

These stocks are to be found chiefly amongst those issued by Governments, County Councils and Corporations. Prior to the war, the title to the stock was evidenced by the inscription of the name of the stock-holder in the books of the registrar. Before the holding could be transferred to the buyer, it was necessary for the seller (or his attorney) to confirm the sale by signing the registrar's book containing the relative entry. A stock receipt was then issued to the buyer, but this was of no negotiable value as it merely evidenced the fact that on the date in question the stock was inscribed in his name. It was not necessary to produce it in the case of a sale, as the sole evidence of the title of the seller was contained in the books of the registrar. As these

registrars' books were invariably kept in London, it was often highly inconvenient for a seller to attend (and, in any case, he had to be properly identified), so that in practice he appointed an attorney to act for him, usually a broker.

On the outbreak of war, the stock registers of the Bank of England and of most other registrars were removed from London to various centres in the country and, as it was obvious that the old system would be almost unworkable, legislation was passed enabling inscribed stock to be transferred by means of the ordinary deed of transfer used for registered stock. When a holding of inscribed stock is sold, a transfer deed is signed by the seller; but as it cannot be supported by a certificate (there is only a stock receipt, which is of no value) it must first be sent to the registrar for certification, that is, for confirmation that the stock as described is in existence.

On January 1, 1943, the abolition of inscribed stocks for British Government securities was announced by the Treasury. No further stocks will be issued by the Government in inscribed form, all future issues being in the form of registered stock. Unfortunately, owing to the vastness of the task, it has not proved possible to transfer automatically all inscribed stock to registered stock, and it is therefore still necessary, when inscribed stock is sold, to send the transfer for certification. The amount outstanding, of course, is rapidly dwindling as a result of sales, since once the stock is sold it is re-issued in registered form with a stock certificate as the holder's evidence of title. It is possible, however, by lodging a request with the Bank of England, to have a holding of inscribed stock transferred to registered stock, and to obtain a certificate. Branches should recommend their customers to have this done. No form is required, as a letter requesting that a certificate be issued for the holding is sufficient. The letter should be addressed to the Chief Accountant, Bank of England, Whitchurch, Hampshire, and can be sent either by the customer himself, or by the branch, provided, of course, it is signed by the customer. In this instance, the letter should not be sent to London Office, since this only entails delay and unnecessary duplication of work.

So far, none of the Dominion Governments, County Councils or Corporations has followed the Government example, with the exception of the London County Council, but it is to be hoped that before long this archaic form of stock will have been relegated to the limbo of forgotten things.

The capital of the Chase National Bank is to be increased to $111 millions by the transfer of $10,730,000 from surplus. This will round out the par value of each share of stock from $13.55 to $15. It will be recalled that in September last the surplus was increased by $21,460,000.

Ellern's Bank of Tel Aviv, Haifa and Jerusalem, have sold part of their unissued shares, and the balance sheet for end 1942 will in consequence show a paid-up capital and ordinary reserves of £P.75,000. In connection with this transaction, Mr. A. K. Zilkha, banker, of Cairo, is to be elected a director of the bank.

The note circulation of the Central Bank of Surinam increased from Fl. 1.5 millions in May 1940 to about Fl. 9 millions in 1943, not Fl. 1.9 millions as was inadvertently stated in our last issue.

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&
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Appointments and Retirements

Barclays Bank—The Hon. Patrick Charles Kinnaird, M.C., has been appointed a director of the bank. Mr. Kinnaird is also a local director at 1 Pall Mall East, S.W.1. Mr. C. Fitzherbert, a local director at Birmingham, has been appointed a general manager (staff) of the bank, and Mr. W. M. Cooke, staff manager, an assistant general manager (staff). Mr. Fitzherbert will not take up his appointment at present as he is serving with H.M. Forces.

Barclays Bank (D., C. & O.)—Mr. H. P. Sheldon has been appointed an assistant general manager.

Chartered Bank of India—Mr. H. F. Morford to be sub-manager in Head Office. Mr. A. G. Read to be Secretary, as successor to Mr. J. F. Duncan, who retired at the end of the year.

Lloyds Bank—*Head Office, Chief Inspector's Department:* Mr. G. Dodd, from Stockport, and Mr. H. C. F. Holgate, Ph.D., from the Colonial and Foreign Department, E.C., to be inspectors. Lieut.-Col. The Right Hon. Lord Luke of Pavenham has been elected to a seat on the board.

National Bank of Australasia, London—Mr. H. D. Giddy has been re-elected chairman and Sir Frank Clarke vice-chairman for the ensuing year.

National Bank of Scotland—*Head Office, Premises Department:* The description of "Clerk of Works" hitherto applied to the officer in charge of the Premises Department has been discarded as no longer appropriate. Henceforth Mr. Alexander Pye, who holds the degrees of L.R.I.B.A. and A.R.I.A.S., will be designated "Resident Architect and Master of Works."

Distinguished Service

Union Bank of Scotland

LIEUTENANT (ACTING CAPTAIN) INNES MCFARLANE, a member of the staff of this bank now serving in the Middle East, has been awarded the Military Cross for gallantry in two actions which took place in July last. On the first occasion, the official citation states, Lieut. McFarlane was sent forward with his platoon to reconnoitre an area inland after a landing. Enemy resistance being encountered within 300 yards of the beach, Lieut. McFarlane at once led his platoon forward, located an enemy machine gun post and destroyed it, in spite of continued sniping and mortar fire from other unlocated positions. "His prompt action enabled the remainder of his Company and Battalion Headquarters to move forward to their correct route." Three days later, during the attack on Tenutella, the enemy's fire was so effective that our troops were pinned to the ground. "Lieutenant McFarlane succeeded in working his way forward with five men to a position from which he could harass the enemy and pick off any who showed themselves. In spite of continued heavy mortar and machine gun fire, Lieut. McFarlane himself returned to Battalion Headquarters, gave important information of enemy positions and then returned to his previous exposed position, where he stayed until forced to withdraw when the grass was set on fire all round him by enemy mortar bombs. . . . Throughout the operation this Officer has shown a complete disregard of personal danger and a courage which has been an example to all ranks."

ROYAL BANK OF SCOTLAND

ANNUAL GENERAL COURT OF PROPRIETORS

VERY LIQUID POSITION

ASSETS EXCEED £115,681,000

THE Annual General Court of Proprietors of the Royal Bank of Scotland was held at Edinburgh on Wednesday, December 1, 1943, Mr. Alexander Maitland, K.C., D.L., presiding in place of His Grace The Duke of Buccleuch and Queensberry, P.C., G.C.V.O., Governor of the Bank, who was unable to attend through indisposition.

Mr. Maitland read the Governor's address as follows :—

I assume it will be your pleasure that the Annual Report and Balance Sheet, with Auditors' Report, should be taken as read.

Before dealing with the ordinary business of the Meeting I should refer to the loss sustained by the Bank through the death of General Sir Herbert Lawrence, G.C.B., one of our Extraordinary Directors. General Lawrence was Chairman and Managing Director of Messrs. Glyn, Mills & Company, and was held in the highest esteem in Banking and Commercial circles in the City of London. He became an Extraordinary Director of the Royal Bank of Scotland in August, 1939.

Since the publication of our Annual Report and Balance Sheet the death has occurred of Mr. J. T. Tulloch, M.C., C.A. Mr. Tulloch had resigned from the Ordinary Board of the Bank in March 1943 for health reasons, and later he was elected an Extraordinary Director. With his passing we mourn the loss of a valued colleague of engaging personality, whose wide experience of men and affairs was always at the service of the Bank.

In the course of the year Colonel Eric Gore Browne, D.S.O., O.B.E., T.D., A.D.C., and Mr. Stephen J. L. Hardie, D.S.O., C.A., have been elected Extraordinary Directors.

The period covered by our Accounts coincides with the fourth completed year of the War, a year in which the feats of the Allied Arms must have brought appreciably nearer the day of final victory.

DEPOSITS AND OTHER LIABILITIES

Turning to our Balance Sheet, our total Assets amount to £115,681,681. These impressive figures constitute a fresh record, and are more than £7,500,000 in excess of last year's total.

We have had continued evidence of the support of our clients throughout Scotland to the various Government Issues for War Finance purposes, while Tax Reserve Certificates are making a widening appeal. Notwithstanding withdrawals for these purposes, it is noteworthy that on balance our Deposits and other Credit Balances have increased by £6,136,377 to the figure of £95,336,360.

Our Notes in Circulation have again increased, and at £7,621,699 exceed the previous year's figure by £1,264,326. Increased wages and salaries and higher prices all have a bearing on this, but, as stated by the Chancellor of the Exchequer, the retention of this spending power in the hands of the public is disappointing and shows that many are still unresponsive to the appeals to save. It is very desirable that the rising trend in the Note issue should be checked.

The figures under Acceptances and Endorsements of Foreign Bills and other obligations are not materially changed and do not call for comment.

LIQUID ASSETS AND INVESTMENTS

On the Assets side a very liquid position is evidenced with Cash, Balances with the Bank of England and other Banks, Money in London at Call and Short Notice, etc., totalling around £25,500,000. These quick Assets, together with Treasury Deposit Receipts £7,000,000 as shown in the Balance Sheet, represent 31 per cent. of our liability to our Depositors and holders of our Notes.

British Government Securities at £43,310,319 exceed last year's figures by £3,968,709. The Government's War Finance requirements therefore continue to benefit substantially by our increased resources.

A high proportion of our Investments in Government Stocks is in Short and Medium-dated Loans. These and our other Investments are all valued at or under Market prices ruling on the date of our Balance.

In spite of the continued shortage of Commercial Paper we are pleased to show a Portfolio of Bills totalling £3,151,513. Of this sum Treasury Bills account for £1,465,000.

ADVANCES

A modest decline is revealed in Advances on Cash Credit and Current Accounts. The Bank has continued to support clients requiring accommodation for vital war work, under which heading we include agriculture, fishing and coal mining. These industries are vital if not so direct as munitions and shipbuilding.

PROFITS

The Net Profit for the year at £532,960 is approximately £16,500 up on last year. Taxation, National Defence Contribution and Charges of Management remain heavy items of expense.

APPROPRIATIONS

The Directors are pleased to be in a position to recommend that a Dividend for the Half-Year on the Capital Stock at the rate of Seventeen per cent. per annum be declared; that £30,000 be carried to Property Maintenance Reserve Account; that £60,000 be contributed to the Trustees of the Staff Pension Fund, and that the remaining £81,710 after these appropriations be carried to our Inner Reserves against contingencies. Perhaps I should say that the appropriation to Property Maintenance Reserve Account is in lieu of our usual writing down of Heritable Property. As you will readily understand many needed renovations are impracticable at the present time and must perforce await the cessation of hostilities. This Account will form a convenient nucleus for such expenditure later on, and it is probably unnecessary to say that our Heritable Property at the figure to which it is written down, viz. £1,095,246, bears little relation to its real value.

BUSINESS AT THE BANK

The business of the Bank has been well maintained throughout the year, and our Associates in England—Glyn, Mills & Company and Williams Deacon's Bank, Ltd.—have also prospered.

SCOTTISH INDUSTRY

Business in Scotland as in England is now so closely allied to the National needs that any reference I make to it must necessarily be in very general terms. It is gratifying to note, however, that Capital and Labour are working harmoniously to bring the war to a successful conclusion.

The Farming section of the community, whose interests have been far too long neglected, is now receiving a fairer measure of recognition for its labour and enterprise. Scientific Research and labour-saving appliances are factors which cannot be ignored by the Agriculturalist today, and the Scottish farmer, with his reputation for shrewdness, can be safely relied upon to avail himself of new opportunities. He should be encouraged to preserve the maintenance of fertility of the soil and be adequately safeguarded in any expenditure for that purpose.

Last year I referred briefly to the important work being done by The Right Hon. Thomas Johnston, Secretary of State for Scotland, along with his Council of State and the Council for Scottish Industry. Under their ægis the North of Scotland Hydro-Electric Scheme has come into being. Still in its infancy its potentialities cannot yet be gauged, but it is an example of courageous, far-seeing and broad-minded planning. You are probably aware through the reports in the Press that all the Scottish Banks are assisting the financial side of this new enterprise.

TRIBUTE TO OFFICIALS AND STAFF

710 Members of our Staff are at present serving with H.M. Forces. In addition 24 have laid down their lives, and we wish to express our deepest sympathy with their relatives. We greatly regret also that 25 are reported missing or prisoners. We have continued the arrangement through the intermediary of the Red Cross by which monthly parcels of books, cigarettes, etc., are despatched to these prisoners wherever such facilities are available. We have received letters of gratitude from different camps, and we are glad that we are able to do something to ease the lost of these young men.

The Government requirements in regard to Man-power and Woman-power continue and are being loyally met, but this naturally increases the already heavy burden on those who are left to carry on the Bank's business. To the permanent and temporary Staff, therefore, I express our deep appreciation of their loyal co-operation, without which the affairs of the Bank could not have been carried on without loss of efficiency.

During the year a Knighthood has been conferred on our Cashier and General Manager, an honour which has been received with the greatest satisfaction by all connected with the Bank and also by his wide circle of friends. It would be difficult to overestimate the value of Sir William Whyte's services to the Bank over a long period of years, and to him in very large measure is due its present position. Sir William's reputation in Banking and Finance is recognised far beyond the confines of the Royal Bank of Scotland, and outside banking he has found time and energy to devote to many worthy causes, and no appeal for help has been made to him in vain. To Sir William I wish to express our heartiest congratulations on his well-merited Honour.

The Honour of Knighthood has also recently been conferred on Lord Provost William Y. Darling, one of our Directors. To him also I wish to tender our sincere congratulations on this recognition of his pre-eminent services to the City of Edinburgh. I would only add that we consider ourselves very fortunate in having Sir William Darling on the Board of the Bank, a position which has been occupied by six of his predecessors.

To Sir William Whyte, General Manager, the Assistant General Managers and the Officials at Head Office, London, Glasgow, Dundee, Aberdeen and Branches, our thanks are once again due for the unremitting and devoted services they have given and are giving in these days of exceptional stress and strain.

APPROVAL OF ACCOUNTS—DIVIDEND

I now beg to propose that the Report, containing a Statement of the Accounts and Balance Sheet, be approved, and that out of the Profits of the year a Dividend at the rate of Seventeen per cent. per annum for the Half-Year, under deduction of Tax, be declared in conformity therewith.

The Report was approved and the Governor, Deputy-Governor, Extraordinary Directors and the Retiring Ordinary Director were re-elected and Auditors were re-appointed for the ensuing year.

HELPING THE BANKS MEET THEIR WARTIME PROBLEMS

As war activities continue to expand—as the demand for bank service increases and the personnel shortage becomes more pressing—it becomes more and more necessary for bank operating heads to find new ways to solve personnel problems . . . new ways to conserve the bank's mechanical book-keeping and accounting equipment.

Wherever these problems have already become acute, Burroughs is proving of great help. To-day's experiences, together with Burroughs' broad background of experience in helping bankers work out practical, time-saving, money-saving solutions to operating problems, may aid you too, in meeting wartime problems.

Burroughs Technical Advisory Service—Burroughs Operator Training School Service—and Burroughs Mechanical Service are nation-wide. They are available to you through your local Burroughs office or by writing—

BURROUGHS ADDING MACHINE LIMITED
Chesham House, 136 Regent Street, London, W.1

Burroughs

BANK OF LONDON & SOUTH AMERICA

ALLIES' DEMANDS FOR ESSENTIAL PRODUCTS

LORD WARDINGTON'S REVIEW

THE annual ordinary general meeting of the Bank of London and South America Limited was held in London on December 28.

The following are extracts from the statement by the Chairman, the Right Hon. Lord Wardington, circulated to the stockholders:

This year I am enclosing my annual address with the accounts, and its brevity is made necessary by present legal restrictions upon the use of paper. Generally speaking, economic trends in South and Central America during the past 12 months have continued along the same broad lines as in the preceding wartime years. On the export side there is strong sustained demand by the allied nations for essential products at good prices, and the steady stream of supplies of raw materials to the United States largely contributes to the record output of war industries there whilst at the same time assisting in supporting Latin America's economy by counteracting the loss of European markets.

On the import side supplies of much-needed goods are still very restricted because of war production priorities in the United States and Great Britain. The whole oversea trading movement, moreover, has continued to be circumscribed by the general shipping shortage and, despite many developments in internal transport facilities, these are still far from adequate and are restricted by the dearth of equipment and of imported fuels.

PREPONDERANCE OF UNITED STATES

Important financial and technical assistance—especially for increasing the output of raw materials—is steadily forthcoming from the United States, which country preponderates in Latin-America's foreign trade on both import and export account, whilst there is continued growth in inter-trading between the various Republics themselves. National manufacturing industries are still expanding and industrial profits are high, with a substantial volume of money seeking investment and consequent stimulation of interest in commercial, Stock Exchange, and real estate activities.

Despite the resultant increasingly keen competition in the banking industry as well as the contraction in the physical volume of oversea trade, the activity in internal business and enhanced prices has combined to assist in maintaining earnings, and the banking situation generally is sound and liquid.

The decline in the physical volume of Latin-America's imports has been much greater than in exports, whilst the increase in average value of the latter has outstripped that of imports. As a result, foreign trade is largely one-sided, the wartime favourable balances—principally in dollars—having steadily mounted to abnormally high levels. Moreover, the resultant gold and foreign exchange reserves have been added to by dollar disbursements by the United States, for development and defence purposes in various of the countries, as also by the influx of private foreign capital.

DIVIDEND OF 6 PER CENT.

From the directors' report you will observe that the net profit after providing for bad and doubtful debts and for legal reserves in South America amounts to £655,475, which together with the sum of £176,358 brought forward from last year makes a total of £831,833, compared with £813,758 a year ago. I feel you will endorse the board's view that the results may be regarded as very satisfactory.

The interim dividend of 2 per cent. paid in June last amounted to £80,800, and transfers to contingency and taxation reserves have been made amounting to £410,000. The directors now recommend a final dividend of 4 per cent., amounting to £161,600, payable December 29, 1943, making 6 per cent. for the year, subject to income tax, and leaving a balance to be carried forward on profit and loss account of £179,433.

THE FUTURE

Plans for post-war international trade and currency stabilization are now much in the air and, whatever their outcome, from the point of view of Latin-America the large holdings of gold and foreign exchange should prove a stabilizing influence there against the effects of post-war changes in balances of payment. At the same time it is important to remember that the success of plans of the nature indicated must depend ultimately upon internal economic stability in individual countries and the general pursuit of governmental policies likely to promote business confidence. It is not yet possible to foretell what international economic arrangements will emerge after the war, but it is certain that lasting world prosperity cannot be built upon individual national opportunism.

I will, therefore, merely add my own expression of confident hope to those of many others that, as the war will be won, so also will the peace—despite the admitted difficulties—through continued co-operation between the United Nations in a joint reconstruction programme based as far as possible on the removal of the trade barriers which operated for so long after the last war and on the mutual recognition of the obligations and advantages of encouraging the maximum exchange of goods.

MARGATE STEAMERS STARTING FROM LONDON POOL 1841

"SUMMER TIME", as we know it, is an artificial means of enforcing us to commence our daily vocations earlier than we normally should, but in the early days of Chubb's history "summer time" meant a hot sun beating down on narrow alleyways or the happier thought . . . a day at the sea. Even before the early Steamers, illustrated above, had come into regular commission, the sailing boat or Margate hoy was a popular means of transit and from an early Guide Book (1806) "The Sea Bathing and Watering Establishments of The British Isles," there is a reference to the tripperish element in these early voyages :

> . . . *a passage in the Margate hoy, which, like the grave, levels all distinctions, is frequently so replete with whim, incident and character that it may be considered as a dramatic entertainment on the stage of the ocean. Here the high and low, rich and poor, the sick and sound, the gentleman and blackguard are all jumbled together.*

On arrival at Margate Londoners evidently practised the patient art of standing in queues, for one reads that :

> . . . *the company had a considerable time to wait before they were able to procure a dip. Each person on his arrival enters his name that he may have his regular turn and in the meanwhile may amuse himself with reading the newspapers, thrumming a piano-forte, or in conversation with fellow-expectants.*

And what has all this to do with CHUBB? Simply this — whether you spend your holiday at the sea, in the country or have a war-time-stay-at-home-holiday, theft is ever possible and human carelessness abounds. Lock up your valuables before going out and if on the Lock the name is

CHUBB

THERE IS NO 'SAFER' PLACE

CHUBB AND SON'S LOCK & SAFE COMPANY, LIMITED
68 ST. JAMES'S STREET, LONDON, S.W.1

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS)

FURTHER EXPANSION OF FIGURES

SIR WILLIAM GOODENOUGH'S STATEMENT

THE Ordinary General Meeting of Barclays Bank (Dominion, Colonial and Overseas) was held on the Bank's premises, 29 Gracechurch Street, London, E.C., on December 23.

The following is the statement of the Chairman, Sir William M. Goodenough, Bt., circulated with the report and accounts for the year ending September 30, 1943 :

It is with great sorrow that I have to record the loss which the bank has suffered through the untimely death of Sir John Caulcutt, our late chairman. He was the first general manager of the bank, after which he became a director, deputy chairman, and, finally, in the year 1935, chairman. It is not possible in a few words to do justice to his great qualities or to his services to the bank and to the Empire. He made an invaluable contribution to the building up of the present strength and prosperity of the bank, and his skill and ability have guided us through many difficulties.

I am deeply sensible of the honour of having been elected by the Board to succeed him. I shall endeavour to carry on the high traditions which have been associated with the Chair and which he so worthily upheld.

PERSONNEL CHANGES

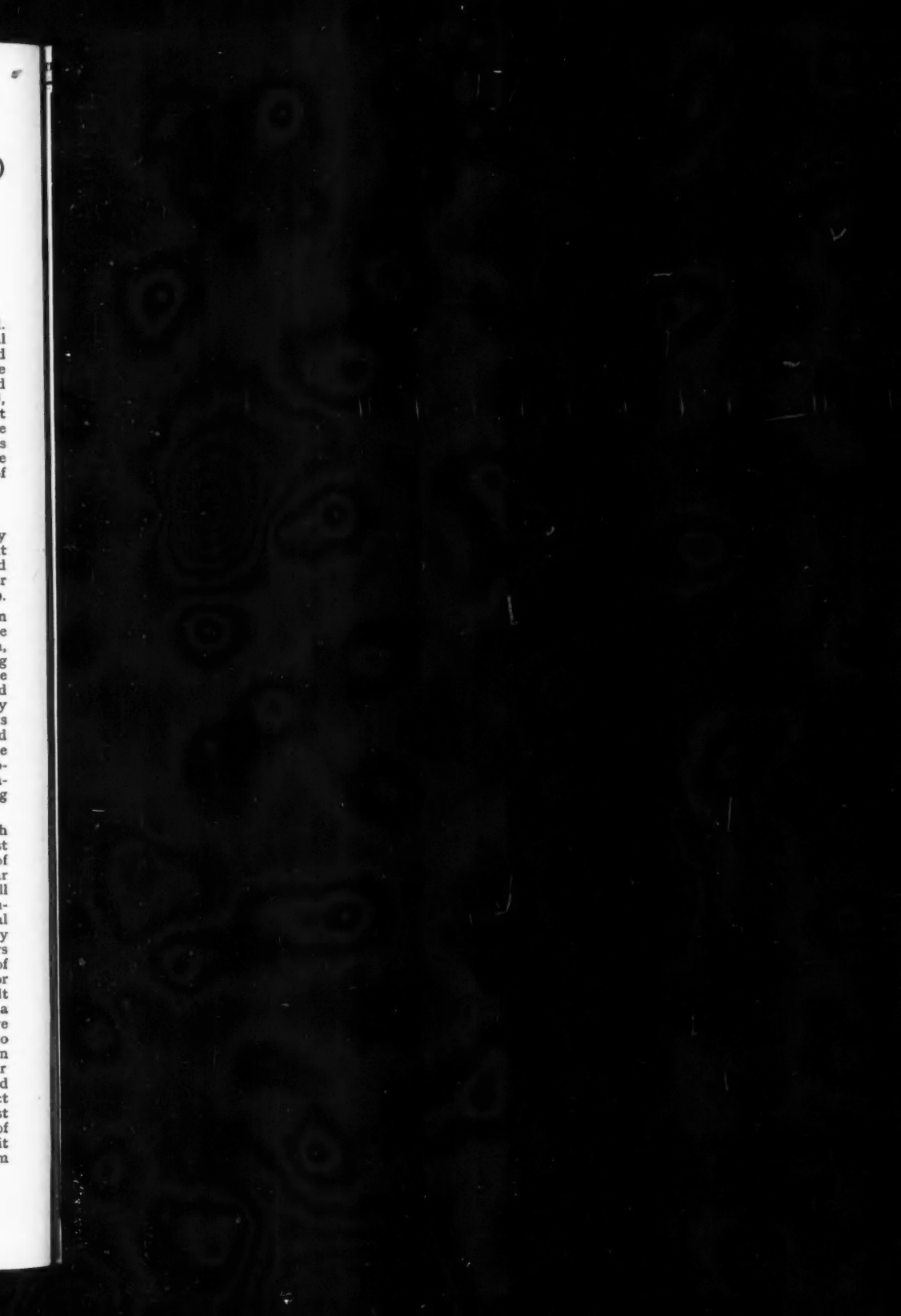
Mr. A. B. Gillett, who has been a director since the bank's reincorporation in 1925, has been elected deputy chairman, and Mr. W. O. Stevenson a vice-chairman ; both of them have rendered signal service to the bank. I am fortunate in the cooperation and support which I receive from them and from our other vice-chairman, Mr. J. R. Leisk, who, as you know, is also the chairman of our South African Board.

Since the close of our financial year, Mr. D. F. Rigby, one of our assistant general managers, has been appointed a general manager, and Mr. H. P. Sheldon an assistant general manager. Mr. A. W. Patterson, who for a number of years has been a local director of the bank in East Africa, has retired on pension. His work in East Africa has been greatly appreciated, and we wish him well in his retirement. The news of the death in July last of Sir Patrick Duncan, the late Governor-General of the Union of South Africa, was received with very deep regret. I should like to take this opportunity of paying tribute to his great public services, which have been of such outstanding value to South Africa.

Our branch at Addis Ababa has been closed. It was opened in July, 1941, to meet the special needs of the British Military Authorities, and the purposes for which it was intended have now been fulfilled. We have since opened branches in Libya, at Tripoli and Benghazi, and in Somalia, at Mogadishu. I feel sure that the stockholders will be glad to know that we have been able to perform these special services to help the occupying authorities and the members of the forces in these distant parts of Africa.

BALANCE-SHEET FIGURES

Turning to the balance-sheet the tendency to expansion which has been seen in recent years has continued to an even more marked extent, and a record figure is again shown for current and deposit accounts, at £247,773,599.

The corresponding increase in assets has been mainly in cash, bills, and investments, while advances show a much reduced proportion, owing to the limited demand for banking accommodation under present conditions. The bulk of our investments consists of short-dated Government securities and the bills are mainly Treasury Bills. The position generally reflects a very high degree of liquidity which should leave us well placed to play our part in the finance of overseas trade and in the development of the resources of the Empire when conditions demand a greater measure of banking facilities.

The low percentage of advances, to which I have referred, is a feature common to most banks at the present time, and, indeed, one of the most marked phenomena of the war period has been the increased liquidity of all kinds of commercial undertakings. The conditions which have brought about the general increase in liquidity have been a contributory factor in enabling us during the past few years to release quite a considerable proportion of the sums set aside previously as provision for doubtful debts. Until recently we have felt it wise to retain these recoveries partly as a protection against possible losses which we might suffer through enemy incursion into areas in the Middle East and Mediterranean where we are established. This is a danger which I think we may now reasonably regard as having passed. The situation in this respect has in fact so much improved during the past year that we feel justified in releasing part of these funds. We have accordingly found it possible to augment our reserve fund from this source to the extent of £300,000.